

COMPREHENSIVE ANNUAL

Financial Report

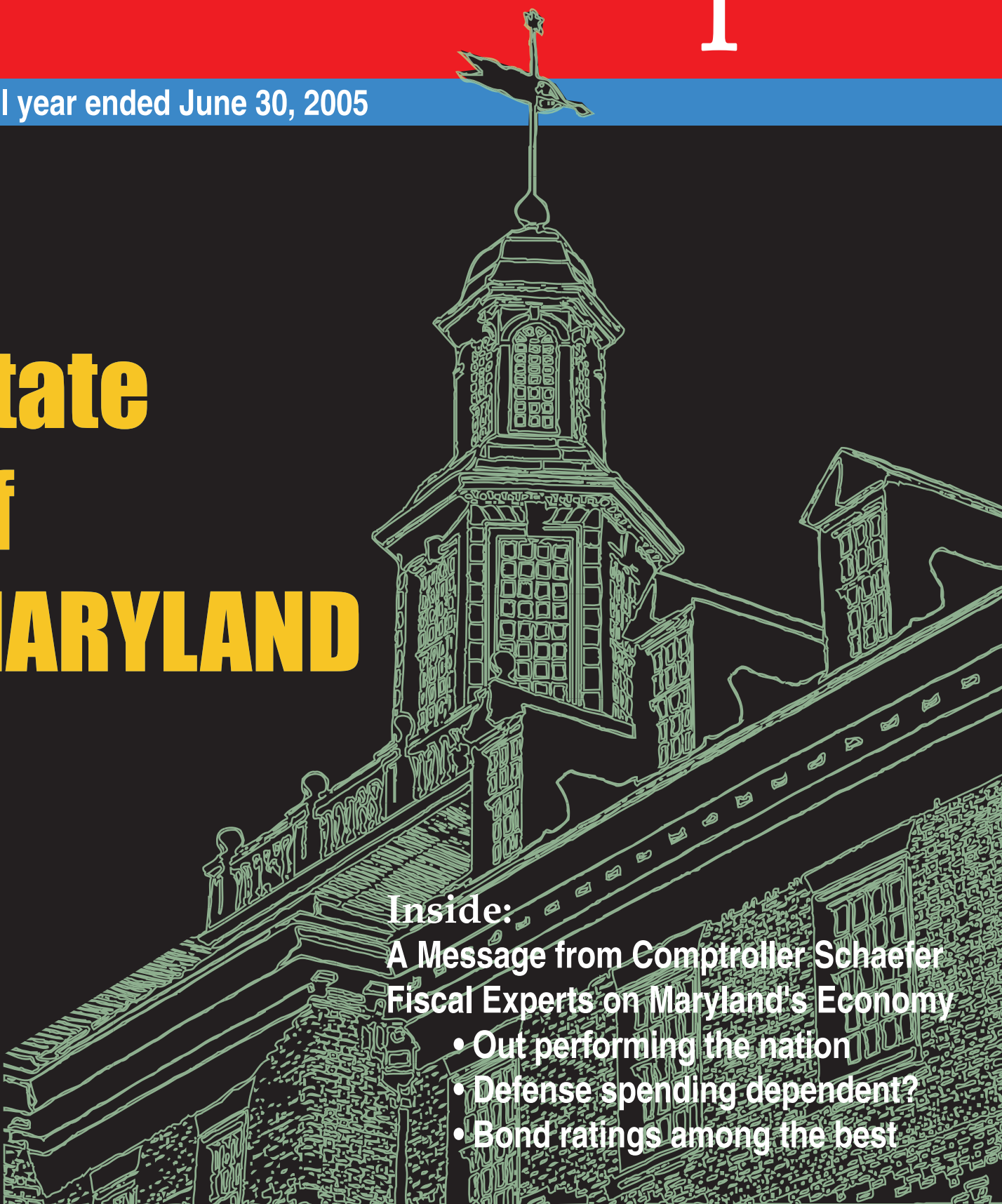
Fiscal year ended June 30, 2005

State of MARYLAND

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STATE OF MARYLAND COMPREHENSIVE ANNUAL Financial Report

Fiscal year ended June 30, 2005



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A Message from Comptroller William Donald Schaefer

Maryland enjoys an expanding economy — partially reflected by the state's rare long-standing AAA bond rating — that provides an exceptional quality of life. One of my main responsibilities is to keep a close eye on our economy. Statute dictates some of this oversight, but I use additional resources that inform and advise me and other state leaders on the direction of Maryland's fiscal policy. This year, I added a new tool to the traditional list.

A division of this agency, the Bureau of Revenue Estimates, predicts future revenues in preparation for future budgets. These estimates are submitted annually to the Board of Revenue Estimates which I chair. Adjusted periodically as conditions warrant, the estimates are an important tool for managing state government and setting programmatic priorities.

I am also a member of the Capital Debt Affordability Committee along with other state officials. Together we recommend limits on the amount of new debt the state can incur which dictates the scope and scheduling of capital projects.

In addition to the statutory process for estimating revenues and limiting debt, I value regular reports from the Comptroller's Business Advisory Panel which annually presents the latest results and trends in several of Maryland's key industries: construction, biotechnology, finance and others.

This year, I augmented my knowledge of our state's fiscal outlook by talking with four independent economic and fiscal experts, each of whom closely follows Maryland's economy and fiscal management. Our wide-ranging discussion, excerpts of which are published on the following pages, included both confirmation and revelation. I hope you'll enjoy reading the account as much as I did the conversation.

A Conversation with Comptroller Schaefer

The experts talk about Maryland's economy



Anirban Basu

Anirban Basu is the chairman and chief executive officer and chief economist of Sage Policy Group, Inc., a Baltimore-based firm of economists and analysts specializing in the Mid-Atlantic region. Among its clients are corporations, non-profit institutions and government agencies including the Maryland Department of Economic Development. In 2004, Basu founded Sage Policy Group after serving as director of the Research Economic Studies Institute at Towson University. He offers regular commentary on WYPR, public radio from Baltimore.



Robert Kurtter

Moody's Investors Services is among the firms supplying bond ratings to define the credit worthiness of Maryland's general obligation bonds, sold periodically to pay for capital programs and projects. The State of Maryland has received a Aaa rating for more than 60 consecutive years. Robert Kurtter is senior vice president and team leader for state and high profile ratings and has been with Moody's since 1991. His previous experience includes financial management for Suffolk County, New York, and for the New York State Assembly.



John E. Petersen

John E. Petersen is a professor of public policy and finance at Virginia's George Mason University and the longtime finance columnist and writer for *Governing* magazine. He was president and division director of the Government Finance Group/ARD, a financial research and advisory firm. Other professional associations included the Government Finance Officers Association, the Securities Industry Association and the Federal Reserve Board of Governors.



Mark Zandi

Maryland is one of 10 states currently retaining Moody's Economy.com, an independent provider of economic, financial, county and industry research to meet planning and information needs worldwide for more than 500 clients. Chief economist Mark Zandi, working from the company's West Chester, PA, offices, is responsible for the firm's forecasts, model development and consulting practice.

SCHAEFER: What are the broad economic trends that will affect Maryland over the next two years?

BASU: I think the most prominent trend has already been affecting our economy: we are at war, and we continue to be in an environment in which we see elevated levels of homeland security and defense spending. That will not change for the balance of this presidential administration.



That plays right into Maryland's hands because that forms a disproportionately large aspect of our economic base. Reinforcing that is the most recent base realignment and closing process where Maryland probably benefits more than any other state in terms of the number of jobs being added to the local economy.

These jobs - for instance at Fort Meade - will pay an average salary of \$75,000 per year. That's a needle mover. When all is said and done between now and the year 2012, we'll have 50 to 60,000 more people living in central Maryland than we would have had but for the base realignment and closing process. It reinforces our underlying strength in homeland security and defense, and we'll continue to see red hot economic development activity coming to Anne Arundel, Prince George's, Howard and Harford counties, in particular. But there are benefits for other small county economies.

The second trend is the ongoing migration patterns of Marylanders. As you know, home prices have been skyrocketing. That will continue going forward probably for a few more months. As a result, more and more Marylanders are having to chase housing further and further away from the urban core. We are among the hottest markets in the country. The hottest among the hottest is Washington County, Maryland. That's because the Washington DC metropolitan area in any

given 12-month period will add between 80 and 85,000 jobs. Those people have to live somewhere. Some people might actually jump back into the middle of the urban core. I would not expect a collapse in home prices any time soon in Maryland, though we have the seventh greatest home price appreciation in the country.

KURTTER: The positive trends are clear: the state's economy is quite strong, defense spending is helping the state tremendously directly through military presence and indirectly through defense contractors. Spending for homeland security is strong. That's been a very positive thing for the state and has helped it through this down cycle.

Further, I think the state's expertise in the professional services area has helped secure contracts for homeland security spending, which, of course, is generating economic activity in the state, and perhaps most important, the presence of the National Institutes of Health and federal spending for health care research and generally on health care. This takes advantage of the state's quality higher educational system, educated

work force and high wealth base. The other side of that coin is that defense spending - federal spending - has been a mixed blessing around the country, and it's been a mixed blessing in Maryland as well. Changes in national priorities can change the

flow of federal dollars, and with the size of the federal deficit, there may be some contraction in federal spending.

ZANDI: I'm optimistic about Maryland. I think it is poised to do well. You've got the right mix of industries, actually catering to the growing number of older households. Health care broadly defined; educational services; anything related to defense, housing, mortgage finance. These are industries that have done very well in the last years. This is why Maryland's economy weathered the last recession better than most parts of the country and why it is doing well now. These are industries that require highly skilled and educated workers.

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The kinds of workers who will produce the goods and services that our nation needs will have an advantage in the future. The only thing that concerns me about Maryland is that it is a very high cost area. Housing is very expensive, and in terms of cost of doing business, it is high relative to competing areas like Virginia for example. But broadly speaking, you are poised to do well and should ride a nice demographic wave in the future with the aging of the population driving the health care and educational services industries.

PETERSEN: I think in the case of Maryland, clearly, it's an economy that is heavily oriented toward the service sector. You are now the third highest state in median household income. It's a state that's had a lot of forward momentum in the service sector – probably a lot of that spinning out of activities relating to federal contracting, certainly we see that in the Maryland suburbs here in the Washington area. We're probably in for a slowdown, which is only normal. Maryland is in that area which is close to Washington DC that has seen some very large increases in residential property values in particular, and a lot of construction. We're one of the real estate hot spots nationally. I know you remember – I do – back in the early nineties where we really had a terrific slowdown and actually a loss of value in high-end residential in particular. So I think that's something we've all got to be concerned about. Maryland needs to take some care on that, because uniquely, you still have a state property tax, and I see that as a strong point with regards to your general obligation bonds. I'm sure the rating agencies have told you the same. You've come out with "belts and suspenders" as regards to sources of payment, because you still have that residual ability to levy the property tax in support of those general obligation bonds.

SCHAEFER: Do you have any thoughts on the impact of energy prices?

BASU: Energy prices have been rising roughly since the middle of 2004. I don't think that this is going to change very much. The macro economic factors that have led to these circumstances are global. China and India together are home to roughly 2.4 billion people, more than a third of the world's population. The

liberation of these economies from regulation and the privatization of these economies is probably the greatest antipoverty initiative in the world's history. And there do not seem to be any signs of slowdown in those two macro economies. Unlike the Americans, the Chinese and the Indians are not efficient users of energy. So when those economies grow, the demand

for energy globally disproportionately expands. This is not going to change, so we are set for a high energy price world for the foreseeable future. The only thing that is going to break this is the development of alternative energy. We Americans have dealt

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Petersen

with rising prices at the pump largely by putting more expenditures on our credit cards. That's probably not a sound response and will catch up to us eventually.



The other thing that we are going to see this winter is higher home heating bills. Many people are going to have much less disposable income this winter than in typical winters. And the other major impact of this on the macro economy: higher interest rates. What has caused this to happen – the acceleration of the

business cycle, our inevitable march toward the next recession – are two things: higher energy prices and Hurricanes Katrina and Rita. Because both are translating into higher prices economy-wide, not just in energy prices, but in transportation prices, food prices, even health care prices. As a result, the Federal Reserve is having to tighten monetary policy substantially and has been doing that. Even before

energy prices took off, the Federal Reserve was raising interest rates.

ZANDI: The run up in energy prices is a matter of some concern in the next six to 12 months. It acts as a tax. If I have to put more of my money into my gasoline tank or to heat my home, I have less money to spend on everything else -- particularly if I'm a lower-end household, and I have no savings or other financial resources.

SCHAEFER: How have the hurricanes in Louisiana and other states affected our economy?

KURTTER: The economy seems to be relatively unaffected by that, although energy prices have risen around the country. I think everyone is fearful of this upcoming heating season and how that is going to be played out in terms of costs to individual homes as well as businesses and corporations. I think the Fed is getting a little concerned that it may be generating some inflationary pressures. So we've all been affected economically by Katrina although it does not seem to have dampened any economic growth that the nation is experiencing. Economies like Maryland's seem to be doing quite well, despite the shocks of the hurricanes in the South this past fall.

ZANDI: It'll affect you through higher energy prices. Prices have gone skyward because of the impact on energy production in the Gulf and refining capacity. Anyone who has little savings and is on a fixed income is going to suffer significantly, particularly people who have long commutes. This is going to be a problem through early next year, particularly if the winter is cold. It's important that people start to believe that there is a problem, because if they don't believe, there will be a problem.



SCHAEFER: Maryland, with a well educated and high-income work force, is a relatively mature economy. How will our economy fare relative to the rest of the country in the near future?

BASU: Maryland now has the 12th lowest unemployment in the country. In the last 12 months for which we have data, jobs have expanded at 2.1%. It means that our state is out performing the nation for multiple reasons.

KURTTER: Maryland is certainly doing very well. It did well relative to the nation during this past downturn for which was probably one of the most painful downturns for any of the states in the nation in more than a decade. While many states actually suffered year-to-year job losses, Maryland's job situation was flat for a couple of years, but the state didn't really experience job losses. States that were heavily dependent on manufacturing suffered pretty badly during this downturn. Some are still struggling as the economy has recovered. Maryland was very fortunate. Maryland is likely to outperform the nation in terms of job growth and economic performance.

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Basu

SCHAEFER: What are the long-term prospects for technology?

ZANDI: I think they are good, because you have an educated work force and just as long as you continue to educate your population, you're going to attract the

businesses that produce high tech goods and services. It's the institutions that are here. You have a lot of health care institutions, you'll be a health care center -- pharmaceuticals, medical instrumentation, genetic research, things coming out of Johns Hopkins. In effect, your biggest asset, I think, is Johns Hopkins, and that needs to be leveraged as best as possible.

SCHAEFER: There's been a great housing boom in Maryland. How long can we expect this to continue?

KURTTER: It looks like the peak of housing prices has occurred and that, at least for the short term, prices will be either stabilizing, declining, or going up more slowly. That's a good thing, because there was concern that there might be a housing bubble that could burst and

cause economic losses for people who purchased properties expensively and may have leveraged them to a great degree. So far, the rise in interest rates has been gradual and somewhat planned by the Fed, and that seems to be taking some of the steam out of the housing markets, which is probably a good thing given how rapidly they have risen. At this point, we don't see, and we don't envision any major bubbles bursting that would cause economic problems. Hopefully, there will be a soft landing and housing prices will stabilize for a period of time and let supply start to catch up with demand. The housing market for vacation properties and rental properties continues to be strong. There's huge demand for that, especially anything that has waterfront proximity. As interest rates rise, it's more likely that people will decide not to purchase those or maybe they'll have to sell some at a loss. Some of the hyperactivity in those markets seems to be slowing down, and that is a good thing because that would prevent a bubble from bursting.

SCHAEFER: What about Baltimore?

BASU: The fastest growing jurisdiction in terms of home price appreciation is the city you helped build, Baltimore City. Two generational factors: first the baby boomers – the group born between 1946 and 1964 – these are the rich people in our society. They control a trillion dollars of spending power each year. They are growing out of their suburban homes, the kids are leaving the household now, and they are looking to change their life-style. That's what's driving much of the condominium activity in Baltimore City. Enormous tax revenue implications obviously for the city but also for the state. The other generational component is the children of the baby boomers born between 1980 and 2000. Nationally there are over 80 million of these people in the country, and Maryland's baby boom echo generation is disproportionately large. Many people after they graduate come to Maryland to do their job search. So we have a lot of young people in the economy, and those who grew up in the suburbs aren't interested in that life-style anymore. They want

to be in the city. Disproportionately, they are going to find affordable products in Baltimore City. So you are going to see big things from Baltimore City.

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need some public transit or taxis or something like that. It's an issue. That's been true in a lot of cities, but there's some reverse flow going on in some cities. I think one of the things – I get to theorize a little bit here – you'll see, particularly if the energy prices and transportation costs go up, is people coming back in to the downtown areas, that's because as folks get older they don't want to have the hassle of having to hop in the car to buy some groceries. The commutes can really be a grind. Living



out on a half-acre, quarter-acre lot once the kids grow up, that's not so attractive. It isn't going to happen in a year or two. It's going to take a period of time, but I think that the demographics of the country are changing and maybe also the housing markets. It's going to be a lot more expensive to live out in the boondocks for people who want to work in the city and want a city environment. And if you do live out there in the hinterlands, you are going

to be missing a lot, which becomes very appealing and attractive to people as they get older.

PETERSEN: I think it is the same thing we are seeing in a lot of areas. They are kind of getting pushed out to some of the inner suburbs, the older suburban areas or are just going away. We see a fair amount of that in this region and people have to go someplace where they can live on Social Security and where the values are less. Often times, they'll end up going into some of these smaller cities because, as people get older, they

SCHAEFER: As you know, government employment and activity is disproportionately large in Maryland's economy. How do you see this playing out for us in the State of Maryland?

KURTTER: Military spending has been a two-edged sword. It's helped Maryland survive the recent downturn. It's a huge boost to the state's economy, and its presence is growing significantly. On the other hand, contraction in military spending in the early nineties also contributed to the slowing of the state's economy, so Maryland is highly subject to national changes in federal policy and international events. The spending in Iraq has somewhat diverted spending that could otherwise be used to balance the federal budget or be spent on federal priorities or lowering taxes. I think the issue from a state financial perspective is the possibility of changes in federal policy because of the sizable deficit, with the government starting to ratchet down spending, whether domestic or military. In the short term, I think Maryland is going to continue to be a beneficiary of federal spending for homeland security, defense, defense contractors and for all of the military-related expenditures. That pattern is pretty well established right now and is likely to continue and will enable the state to out perform the nation. In the longer run, I think the state needs to be cognizant that federal defense dollars can be cut, that federal defense spending is not necessarily an ongoing growth program and that with pressures on the federal budget, at some point the federal government is going to have to look to defense spending to help to balance the budget.

PETERSEN: I think that Maryland on a per capita basis in terms of state and local employment compares very favorably with the other states, so you don't have by definition a very large government sector, but federal employment is clearly an important part. It makes up about seven or eight percent of your workforce, and that hasn't been growing and probably won't. So, you

know, it's one of those interesting trade-offs: you've got a pretty good base of federal employment, well compensated, but it probably can't be considered a growth factor.

Those federal jobs are very desirable and very worthwhile, and Maryland is well located to benefit by them. But as regards to a longer term growth factor, well, maybe we'll see, but I think we've all got to be worried about where the feds are going to come up with the money to pay those salaries.



SCHAEFER: Right now we are in a boom period of tax collection. We've got a billion dollar surplus. Is that realistic?

BASU: I think the pace at which the surplus builds will slow. Maryland's economy is somewhat protected from these broader national macro economic trends because of the role of homeland security and defense spending. So I don't think that the economy in Maryland necessarily will slow as quickly as the national economy. However, I would say that now's the time to prepare for when the next economic downturn begins. Going into the beginning of the next decade, this state should have a massive rainy day fund. We in Maryland could be setting ourselves up for a period like the late 1980s and early 1990s. You were governor. During that period a host of forces simultaneously affected the Maryland economy, starting with the S&L crisis in 1986. The stock market crashed in 1987. Overbuilt commercial real estate, consolidation

within defense manufacturing, consolidation within financial services: all of these things hit Maryland at once, and in a very short amount of time we lost almost 1 in 20 jobs in our economy. Tax collection suffered as a result. What's been holding this economy up has been homeland security and defense spending. Imagine if

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Petersen

the next president gets into office in 2009 and says, "I want to balance this budget, and the first thing that I'm going to do is trim back defense and homeland security." Who is most vulnerable to that? Two states: Maryland and Virginia. The way to prepare for this is to put money away while we are generating these surpluses so that we can prepare for the beginning of the next decade.

PETERSEN: I think the immediate concern is how we come out of the residential real estate bubble. With interest rates going up -- now they may not go up very fast -- that slows the whole economy down, so I am concerned about that. It'll be tragic in certain individual instances, but I think that we'll just have to slide along and maybe lose some value in housing. That's going to be of fairly immediate importance to a lot of governments, but not the killer in terms of Maryland, because you've got that diversified tax base. But, that's one thing I'm worried about.

Another longer term issue is not just Maryland-specific, but it's the whole issue of losing big chunks of our economy. I guess I'm going to say particularly in manufacturing, but we see it in the service sector, too, with off-shoring. I'm not saying I've got an easy solution, but to say that this is all just being mindlessly driven by the markets is probably not going to be a good enough answer for people. They want some kind of assurance, protection, security, maybe not an air bag necessarily, but some way to divide up the benefits of that in an equitable fashion. I'm worried about that.

The nature of Maryland's revenue structure is such that you get a nice bounce as the economy picks up, and clearly that's what we've seen over the last couple of years. And one thing I did want to point out, is that you have I believe what is almost a unique quality. You still have that state property tax. That, to an analyst, gives you a unique advantage which I think has been one of the factors in that "Triple AAA" rarefied atmosphere the State of Mary-

land finds itself in as regards to ratings. You know, I think that the balanced revenue structure with the income tax and sales taxes and that property tax is a very nice feature of Maryland government.

SCHAEFER: How about personal income? We have a heavy reliance on personal income tax and our counties do also. Does this present any particular benefit or real concern to the state?

The important thing, I think, is that the state, more than other states, has managed through these problems well by recognizing the volatility of this tax source and building reserves to buffer against its inherent volatility.

Kurtter

KURTTER: Maryland is a high wealth state, and the ability of the state and its localities to capture some of that wealth in its income tax structure is a huge benefit to the state. The risk is, as we have seen that in this past downturn, when

the economy turned down, federal tax receipts turned down, and states' tax receipts turned down. The greatest downturn occurred among high-income filers, because they derive a lot of their income from financial institutions, stock markets and investments. When the stock market went into its speculative run-up in the late nineties, peaking in 2001, and then that bubble burst, it brought down the incomes of a lot of high-income filers who are paying taxes in every state in the nation and to the federal government. So, the fact that Maryland is dependent on the personal income tax is a good thing when times are good, but it can be a difficult thing when times are not good.

The important thing is that the state, more than other states, has managed through these problems well by recognizing the volatility of this tax source and building reserves to buffer against its inherent volatility. Maryland has emerged from the depths of the recession, the economy is strong, revenue performance is good, the budget is balanced, although difficult budgeting decisions still have had to be made. As we look forward, the state still faces some serious challenges. Medicaid, as we said earlier, is one significant challenge. Health care costs for state employees as well as for poor people in the Medicaid program are clearly outstripping the underlying growth rate of the revenue system. Moreover, the



state has made an important commitment to increase funding for K-12 education, and that will require additional resources in future years. Lastly, the high cost of post-employment benefits for retirees is another area that is going to cause the state to make some difficult decisions to balance the budget, notwithstanding the strong growth of the economy and the revenue system.

PETERSEN: Personal income tax - that's going to be a pretty rough one to replace - as a Presidential commission is learning the hard way. For its failings, it, nonetheless, is something that is pretty well rooted into our economic and fiscal system. Maryland uses it, Virginia uses it, a lot of states use it. I think only about seven or eight states don't have a personal income tax, and you're probably going to see some reforms in terms of state use of the tax, but I don't think you are going to see it replaced by a flat tax or value added tax even. However, that may come as the United States economy gets so open to the rest of the world, we may have to look at a value added tax, which as you know, is kind of a national sales tax that's based on value added at each stage of production.

SCHAEFER: What about sales tax?

KURTTER: Sales tax is another important revenue source the state relies on. Sales tax has performed well as the economy has performed well. One of the things we've learned through this downturn is that Americans are remarkably resilient -- when times are good, when times are bad, they just keep spending. The sales tax captures that spending. The retail economy is two-thirds of the national economy. Maryland being a high wealth state which survived the recession fairly well, outperforming the nation in terms of employment growth, has had good sales tax performance, and we would expect that to continue. I think the economy is strong. Job performance is good. Corporate profits are good which means that bonuses are likely to be strong. The concern again is how much of a consumer's dollar will get absorbed in paying additional fuel prices either for heating

homes or for their cars. Fuel prices seem to be coming down somewhat, so that's a reason for optimism that income is going to be strong. Maryland has had very good employment numbers, which should continue, carrying the economy into a prosperous 2006.

Maryland being a high wealth state which survived the recession fairly well, outperforming the nation in terms of employment growth, has had good sales tax performance, and we would expect that to continue.

Kurtter

SCHAEFER: But how about Maryland from a competitive standpoint?

KURTTER: From where I sit as a credit rating analyst, Maryland has been a Aaa state and performed as a Aaa state through this downturn, acting in a fiscally prudent manner, and that prudence extends to both the executive and the legislative branches of government.

The state's economy has outperformed other states during this time, and that's not to say that the state has not faced difficult times and difficult decisions. It has been the institutional factors that the state has established and adhered to over the years that have helped carry the state through this very rough period and emerge strong enough to face some of those challenges we talked about earlier -- funding

rising health care costs and educational equity around the state. The burden of meeting this fiscal responsibility falls on the executive, on the legislature and on the budget staff that needs to implement and maintain balance through the year. All those different parties have recognized the tradition of the state, understood the need for fiscal prudence and implemented important spending controls

in a way to keep the state prosperous and yet balance the books. I think the important thing is that the state has agreed on priorities and has adhered to those priorities. So it is a balancing act the state has, throughout recent decades, managed very adroitly even through difficult times.



SCHAEFER: How are immigrants going to affect the economy of our state and our nation?

ZANDI: Well, you know it's very hard on households that are lower income that don't have skills and education because they are competing head on with immigrants, both legal and illegal. So for those households, it makes life very difficult, and there's no reason to believe that's going to let up significantly. For the economy as a whole, the government is also hurt by large pools of illegal and other immigrant groups because of the cost in providing them health care and other kinds of government services. Generally those costs are greater than any revenue that's generated. But from a broader economic perspective, immigration is key to the strength of our economy, because as our population ages, if we do not have immigration, our population growth would come to a standstill. And actually at some point, 10 to 20 years from now, it would go negative. That would make it very difficult for our nation to support programs like Social Security and Medicare and Medicaid. We need the younger workers to provide the tax revenues necessary to support those programs. So, businesses will struggle if they are unable to find labor. In the long run, from a broader economic perspective, immigration is vital. That's not to say we shouldn't change our immigration laws. We want to bring in workers who have those skills and education that will contribute quickly to our economic well being, and so we need to make changes in that regard.

SCHAEFER: How does Maryland stack up as far as manufacturing is concerned?

ZANDI: Manufacturing is much less important to your economy than the national average. In terms of jobs, it's about five percent of the employment base here. Nationally, it's more than double that. The kind of manufacturing you have is higher value added and perhaps higher skilled workers; a lot of it is defense-oriented. I don't think there's any reason to try incentives to keep manufacturing here, because it's a losing battle. You will lose easily to China and India and the rest of Asia. The economics are very compelling. Call centers and manufacturing have all have shifted to China, India, and the rest of Asia.

That's why the only solution is education and raising the attainment of skill level of the population. Because that's the only way Maryland's economy, or the nation's economy, is going to compete.



PETERSEN: Baltimore, of course, came out of a manufacturing tradition, and that's just been a tough go. I mean, everybody's taking hits, and I'm referring to some of these General Motors plant closings and so forth. One of the things that seems to have happened in the economy in the last decade or so is that the economy itself is a lot more stable, it appears to be more stable, for instance, we don't have inventory cycles. But for individuals and for firms and states, it's more

volatile. There's a lot of interaction underneath the fairly stable curves and that makes it hard to plan. Certainly manufacturing has been an area where with the off-shoring in particular, greater use of imports and so forth, it's hard to put a happy face on its prospects. I'm sure there's going to be certain types of high-end and very specialized manufacturing, but clearly a state can't look at that as a bedrock in its economy anymore.

Manufacturing is much less important to your economy than the national average. In terms of jobs, it's about five percent of the employment base here. Nationally, it's more than double that.

Zandi

KURTTER: Your share of manufacturing relative to the nation is about half, so you are not very manufacturing-dependent. The state has been losing manufacturing jobs for years and has been replacing them with high-wage, highly skilled, highly

educated jobs. That manufacturing had a smaller presence in Maryland really enabled you to bypass some of the serious economic and job loss pain that was experienced elsewhere in the country, and those trends are likely to continue in the near future.

SCHAEFER: Our reputation is one of fiscal responsibility. We have a fairly high standard of living. Should we be nervous about anything?

PETERSEN: Maryland already has a pretty balanced structure. I think you're as well positioned as anybody, and I guess the rating agencies agree with that. I write a column for *Governing* magazine, and Maryland got B ratings which is a little bit surprising because it is a "Triple AAA" state, but one of the complaints with Maryland was that you had enacted a strategic plan for performance budgeting and haven't followed through. I think that was in 1997. The budget comes out on time, but transparency and public involvement and having the agencies perform analyses as regards to their efficiency and effectiveness evidently hasn't gotten embedded in the budget process.

Another thing I notice - this is true throughout the nation - that public pension systems are beginning to get a little anxious about their investments and their ability to maintain those actuarial earnings assumptions. I notice that the state's contributions in Maryland have been going up, and I imagine in part that's because the normal costs have been going up, and you're trying to maintain a reasonable funding ratio. I think Maryland, by the way, is in much better position than several other states because your funding is already pretty high. But, I think everybody is a little nervous about some of those actuarial assumptions in terms of 7 ¼ to 8% earnings. I'm aware of the corridor plan which gives you a little bit more flexibility in terms of achieving that funding ratio, but nonetheless it's interesting that you're not entirely meeting that normal requirement, and you're going to take a little time in trying to achieve that balance, which may be prudent. But, that's what I'd keep an eye on, because I think that's a nationwide challenge - funding for pensions. We just don't know what is going to be happening to investment earnings out here in the next few years.

SCHAEFER: To what do you attribute our Aaa bond rating?

KURTTER: I've been the lead analyst for a number of years, and now I manage the team that does all the states, which includes Maryland, so I've been following the state for about 10 years. We raised our rating to Aaa for the State of Maryland in 1940. I think it's fair to say Maryland is

one of the very few continuously Aaa-rated states in our rating history. I think we attribute it to a number of things, some of which are institutional, some of which are governance. I think some are the state's procedures, the strong executive ability to present a budget, the legislature's limited ability to make revenue adjustments, the state's debt affordability statement, the control that the Board of Public Works has over borrowing, the state's long tradition of conservative revenue forecasting and the willingness to make difficult decisions when times are tough. It's

recognition on the part of the elected branches of government that a Aaa is important and that you need to be fiscally conservative and prudent in order to maintain it.

PETERSEN: I'm heavily influenced by the credit rating agencies and having done work myself in the market for many years. Maryland has done extremely well in ratings, and you certainly get a fair amount of credit for that. I think, again, it's the ability to have a diversified tax base and what has been a pretty favorable overall economic condition.

Maryland has been able to gracefully move from a manufacturing base which was substantial at one time into more and more professional services. You've got some soft spots like Baltimore City, but in comparison with the rest of the nation and certainly the urbanized areas of the nation, you are holding a lot of cards.

SCHAEFER: Is there anything in Maryland that other Aaa states can learn and anything we can learn from them?

KURTTER: Maryland has done a very good job of managing its debt. If you go back a couple of decades, Maryland was one of our

highest debt states. You were ranking 4th or 5th in our debt medians, year in and year out, way up at the top. With your Capital Debt Affordability Committees, the state has pared back its use of debt, been a little more cautious about what it funded with debt, and your



I think it's fair to say Maryland is one of the very few continuously Aaa-rated in our rating history.

Kurtter

ratios have come down to where you are close to the middle of the pack of states in terms of debt. I think an important lesson to all states is that debt management is important. Another thing the state has done is conservative revenue forecasting, as we talked about earlier. That, I think, has saved the state a lot of trouble by not inflating its expectations and having to deal with downside disappointments. The state's pensions have been largely fully funded, and you haven't taken pension holidays that have caused huge unfunded liabilities. The system is just a little under funded now as a result of declines in the stock market, but you are in pretty good shape with regard to funding liability.

With regard to things that Maryland might learn from other states, I think other post-employment benefits is an area that you are going to look to see how other states are handling: where did this huge liability come from? How are you going to afford it? How are you going to fit that into your budget? This is a major issue that you are going to have to confront in the next few years. Overall, I think Maryland is very well positioned. It survived one of the most severe problem periods that states have gone through in decades and survived it well. You made difficult decisions but performed as a Aaa state. Going forward, I think the economy and the revenue structure are strong. There's a lot of positive things to point to, but like any large complex entity, the state is not without its challenges and not without problems that it's going to continue to face. That means that some of the revenue growth that the state is experiencing will have to be used to afford some of the commitments it has made to funding schools and retirees' benefits. Again, I think it is a matter of establishing priorities and following them and the state has a long track record of doing that well.

PETERSEN: I think there's not a whole lot to learn. One thing I might finger is the whole strategic plan and budgeting process. You and I have been around for a long time, so we know these plans sometimes are a

little filmy and frothy, but I think to be able to project five or six years and then to tie that into your budgeting system is a good idea. Not to cast any invidious comparisons, but Virginia got a heck of a lot of mileage out of those high management ratings they got in *Governing*, and a lot of it had to do with their planning. That's one thing I would suggest.

That "Triple AAA" is as close as we can come in our system to an objective measurement as to how well the government is performing and how good its prospects are, because that's what those general obligation bonds depend on, and that's what the rating is all about. It can be a tough fight sometimes, because there are those people who say, "Oh well, let it go," and I think they are wrong.

That "Triple AAA" is as close as we can come in our system to an objective measurement as to how well the government is performing and how good its prospects are, because that's what those general obligation bonds depend on, and that's what the rating is all about.

Petersen

SCHAEFER: There are differences in Maryland's fiscal practices. Differences between our state and other states. We've got a AAA bond rating. Anything we should watch out for as far as that rating is concerned?

PETERSEN: I'm not a doom and gloom guy. I think what's going to happen is you're going to continue to have economic cycles. It

looks like they are going to be fairly moderated, you've got to be aware of that. Clearly, the best thing is when you have a political structure that's able to address a temporary deficit and do something about it. That's extremely important for your bond ratings and to the investment community and to everybody. I think the top problem is this longer term prognosis of what are going to be the costs, like these health care costs. Technology is not our friend in many respects when it comes to health care, and that's not only in terms of state employees but also in terms of the costs to the citizens. So that's what I'm kind of worried about as a big picture item.

STATE OF MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the fiscal year ended June 30, 2005

Published
by
General Accounting Division



STATE OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2005

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INTRODUCTORY SECTION

State of Maryland Selected State Officials

EXECUTIVE

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lieutenant Governor

William Donald Schaefer
Comptroller

J. Joseph Curran, Jr.
Attorney General

Nancy Kopp
Treasurer

JUDICIAL

Robert M. Bell
Chief Judge
Court of Appeals of Maryland

LEGISLATIVE

Thomas V. M. Miller, Jr.
President of the Senate
(47 Senators)

Michael E. Busch
Speaker of the House of the Delegates
(141 Delegates)



William Donald Schaefer
Comptroller

John D. Kenney
Director
General Accounting Division

Honorable Members of the General
Assembly and the Governor,
State of Maryland

December 5, 2005

The Comprehensive Annual Financial Report (CAFR) of the State of Maryland (State), for the fiscal year ended June 30, 2005, submitted herewith, includes financial statements of the State as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller.

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of Maryland's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's basic financial statements by a firm of independent public accountants selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Abrams, Foster, Nole & Williams, P.A., has been included in the financial section of this report. In addition, Abrams, Foster, Nole & Williams, P.A. performed an audit to meet the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and such information is contained in another reporting package.

The State has issued guidelines to its agencies for establishing effective internal controls. As a recipient of Federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines.

The accompanying financial statements include all funds of the State (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable. The various colleges and universities and the Maryland Stadium Authority are reported as major discretely presented component units. The Maryland Industrial Development Financing Authority, the Maryland Food Center Authority, the Maryland Environmental Service and the Maryland Prepaid College Trust are combined and presented as non-major component units.

Accounting principles generally accepted in the United States of America (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent public accountants.

BACKGROUND INFORMATION ON THE STATE:

Maryland ratified the United States Constitution on April 28, 1788. Its capital is Annapolis, where the principal activities of state government are centered. The State's 2004 population was 5.6 million, and Maryland ranks 19th in population and 42nd among the states in land area with 9,774 square miles. The largest city is Baltimore with a 2004 population of 636,000 (2.6 million for the primary metropolitan statistical area). Its employment is based largely in services, trade and government. These sectors, along with finance, insurance and real estate are the largest contributors to the gross state product. The State has a bicameral legislature, the General Assembly, composed of the Senate with 47 members and the House of Delegates with 141 members. The General Assembly meets annually for a 90-day session beginning on the second Wednesday in January.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations. Maryland maintains its accounts to conform with the legally mandated budget and also to comply with generally accepted accounting principles. Financial control is generally exercised under the budgetary system.

There is a Spending Affordability Committee in Maryland which consists of certain designated officers of the General Assembly and other members as may be appointed by the President of the Senate and the Speaker of the House of Delegates. Each year the Committee must submit a report to the General Assembly's Legislative Policy Committee and to the Governor recommending the level of State spending, the level of new debt authorization, the level of State personnel, and the use of any anticipated surplus funds.

Also, the General Assembly created a Capital Debt Affordability Committee, the members of which are the Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and one person appointed by the Governor. This Committee is required to submit to the Governor by September 10 of each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized. The Committee's recent reports encompass all tax supported debt, including in addition to general obligation debt, bonds issued by the Department of Transportation, bonds issued by the Maryland Stadium Authority and capital lease transactions. Although the Committee's responsibilities are advisory only, the Governor is required to give due consideration to the Committee's finding in preparing a preliminary allocation of new general obligation debt authorizations for the next ensuing fiscal year.

INFORMATION ON THE STATE'S ECONOMIC CONDITION:

Maryland's economy continued its strong performance in 2004 and through the first three-quarters of 2005. Almost 27,000 jobs were created in 2004, as employment growth was 1.1%. For the first three quarters of this year almost 50,000 jobs have been created with a robust 1.9% employment growth, stronger than the national average of 1.7%. Wage and salary income increased 6.5% in the first half of 2005, also an acceleration from the year's before 5.7% growth. A booming housing market, Federal spending on defense, homeland security, and health, very strong corporate profitability and a growing tourism trade have helped drive Maryland's economy.

The following chart shows the State's personal income growth over the previous ten years compared with the national average.



Source: U.S Department of Commerce, Bureau of Economic Analysis

Construction, professional and business services and leisure and hospitality services were the fastest growing industries in Maryland in 2004. The construction industry grew by 4.7%, boosted by continuing low interest rates. The near-term outlook is relatively strong as mortgage rates have only recently started to climb, public sector spending has recovered after several weak years, and with very strong corporate profits, business expansion will continue. The professional and business services industry, Maryland's third-largest, grew by 2.8% in 2004. As with the construction sector, recent business profitability helps to support the growth of this industry, as does the vast amounts of Federal spending in Maryland on contracts of all descriptions. Through the first nine months of 2005, this industry has contributed almost one-third of all new jobs in the State despite representing under 15% of total employment. The leisure and hospitality industry also grew by 2.8% in 2004, spurred in part by an increase in tourism in the State. The number of domestic visitors increased by 4.8% to more than 21 million, outpacing national growth of 2.1%. To date in 2005, this industry has grown 5.7%, almost twice as fast as the next best industry.

The manufacturing and information industries were two of the State's laggards in 2004. For six of the last eight years, manufacturing was the worst-performing industry in the State. In the other two years, it was second-worst. Although the industry posted its best performance in four years in 2004, it still declined by 2.9%, in part due to the long-anticipated closure of General Motors' Broening Highway plant. The information industry has been on a roller coaster ride of late, reaching higher highs and lower lows in the last five years than any other industry in Maryland. At the end of the technology boom in 2000, job growth reached 7.9%, the best growth of any major industry since 1990. And just two years later the sector cratered as a result of massive over-investment in telecommunications during the prior several years and the wind-down from Y2K, falling by 8.9%, the second-worst performance of any industry since 1990. The sector is recovering, shrinking by only 1.0% in 2004. While the prospects for this industry are positive, manufacturing seems likely to continue declining.

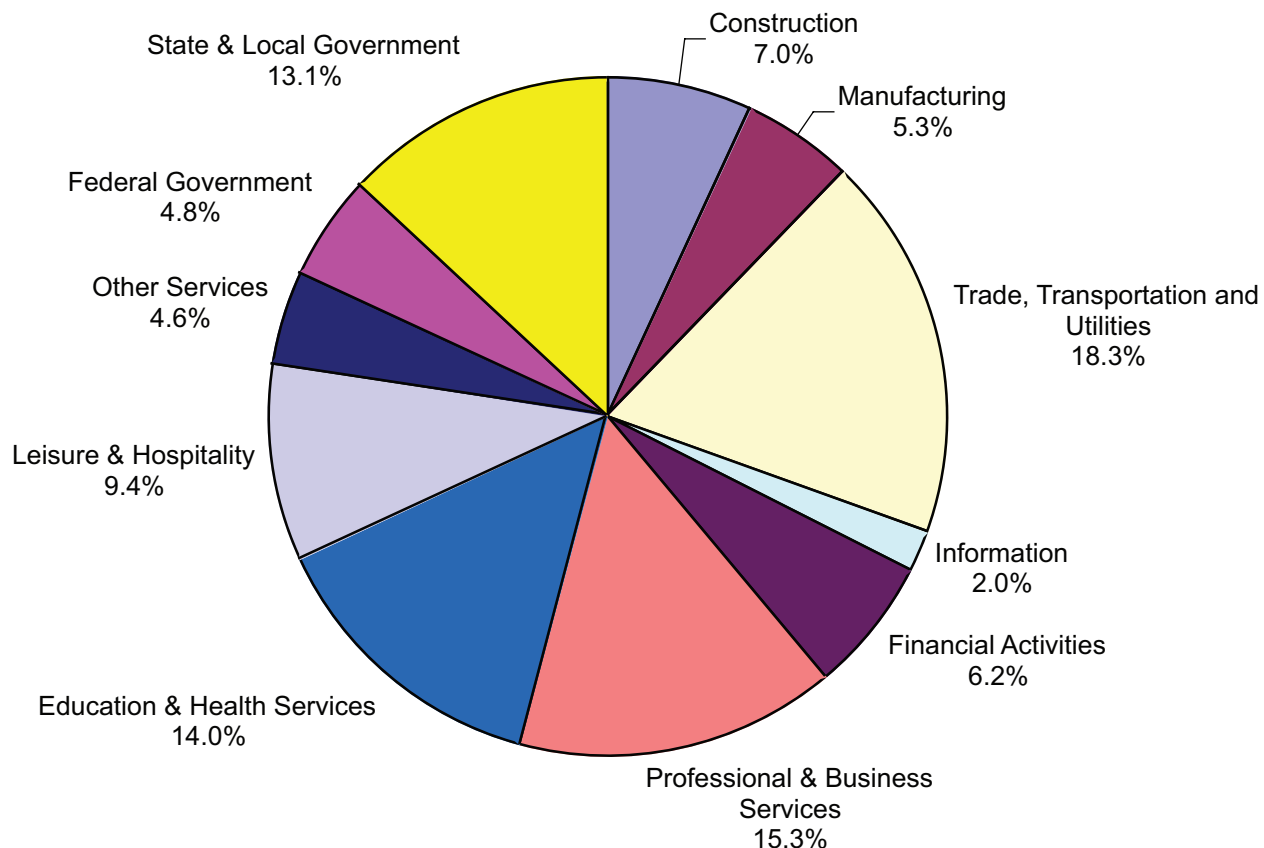
Current risks to Maryland's economy include the national economic impact of hurricane Katrina, rising energy prices and interest rates, and the Base Realignment and Closure process. Shortly after hurricane Katrina struck, many economists estimated that national economic growth would slow by about one percentage point in the last half of 2005, and increase by about the same amount in the first half of 2006. The majority of the impact would obviously be in Louisiana and Mississippi, but the slowdown was expected to affect most of the country. After more consideration, the consensus now seems to be that the impact on the national economy will be about half of that previously estimated, and, with one exception, the impact will essentially be concentrated in the states which were directly affected by the storm.

The one exception—a significant one—is energy prices. While gasoline prices are now below the levels they spiked to for several weeks immediately following Katrina in most if not all of the country and oil prices have receded to around \$60 a barrel from a peak of \$70.85, gasoline and oil prices are still very high relative to not long ago. The situation with natural gas is much more dire; Katrina had a larger effect on gas production than oil production in the Gulf. Inventories of gas are very low as a result; a cold winter could result in shortages. Prices of both natural gas and heating oil will be much higher this winter than last. A further sharp rise in energy prices, aside from the effect on overall inflation as it flows through the economy, could be enough to tip the country into recession and slow Maryland's growth precipitously, if not bring it to a halt.

Rising interest rates could bring a dramatic slowing to the housing market, which has been a significant impetus to the State's economy. The Federal Reserve has raised interest rates 25 basis points for twelve consecutive meetings. Not until recently have the increases in the Federal funds rate affected long-term interest rates. Fixed-rate 30 year mortgages are currently hovering around 6%, roughly where they have stood since the end of 2002. The regulatory steps the Fed is taking to restrict the expansion of new types of mortgages which can be risky for many borrowers may perhaps have more of an impact. Given Maryland's relative lack of developable land and the stability the Federal presence currently lends to the State's economy, Maryland's housing market is probably at less risk than most others that have grown similarly over the past several years.

Finally, the largest positive risk in the outlook is the Base Realignment and Closure process. President Bush signed the commission's report on September 15; Congress has 45 legislative days to disapprove the report or it has the force and effect of law. As adjusted by the BRAC Commission, Maryland will gain a net of about 6,000 jobs. The bulk of the new jobs will be at Ft. Meade (5,300) and Aberdeen Proving Grounds (2,200). Estimates of the new jobs created indirectly through this process range from 5,000 to 14,000; longer-term, the number of direct, indirect and induced jobs could reach as high as 60,000. Many industries will be affected from central Maryland through Harford County, and the boost to the State's economy will be substantial. The process won't be complete for a number of years, although the first impacts will begin to be seen in 2007.

2006 Forecast Maryland Employment 2,624,650 Jobs



Barring a very cold winter and spiking energy prices, Maryland's economy will continue steady growth over the next 18 months. Services, especially professional and leisure services, local government, and retail trade will contribute to a healthy economy. Manufacturing's decline seems likely to slow, and Federal and State employment is likely to stagnate over this period. Employment growth will be stable at about 2.0% in 2005 and 2006 before slowing to 1.2% in 2007 as interest rate increases take hold, the housing market slows, and the current national expansion nears its end. Maryland wage and salary growth will slow slightly from a healthy 6.7% in 2005 to 6.3% in 2006, and decelerate further to 5.6% in 2007.

MAJOR BUDGETARY INITIATIVES:

The budget for fiscal year 2006 includes increases in public school education, kindergarten through grade 12 and in the Medicaid budget. Legislation was passed last year to assist the Chesapeake Bay Restoration Fund and, accordingly, \$36 million has been provided to upgrade Maryland's most needy wastewater treatment plants. Over the next six years, the fund will provide nearly \$1 billion to improve these plants. Maryland's capital budget includes funding for transportation improvements and to build state and local correctional facilities, as well as for capital programs that provide grants and loans to local governments and the private and non-profit sectors.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 24 consecutive years (fiscal years ended 1980-2004). We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Sincerely,

A handwritten signature in black ink, reading "William Donald Schaefer". The signature is fluid and cursive, with the first name "William" being the most prominent.

William Donald Schaefer,
Comptroller of Maryland



FINANCIAL SECTION

Abrams, Foster, Nole & Williams, P.A.

Certified Public Accountants

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(410) 433-6830 / Fax (410) 433-6871

Member: American Institute of Certified Public Accountants
and Maryland Association of Certified Public Accountants

December 5, 2005

Report of Independent Public Accountants

The Honorable William D. Schaefer
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland (the State), as of June 30, 2005 and for the year then ended, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements, schedules and supplementary information are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of (1) certain Economic Development - Loan Programs; (2) Unemployment Insurance Programs; (3) Maryland State Lottery Agency; (4) Maryland Transportation Authority; (5) Economic Development - Insurance Programs; (6) certain foundations included in the higher education component unit; (7) Maryland Environmental Service; (8) Maryland Food Center Authority; (9) Investment Trust Fund; and (10) Deferred Compensation Plan, which represent the percentages of the assets, net assets and operating revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit		
	Total Assets	Total Net Assets	Total Operating Revenues
Business type activities:			
Economic Development-Loan Programs	46.61%	33.08%	7.36%
Unemployment Insurance Programs	12.76	21.75	22.06
Maryland State Lottery Agency	4.46	1.01	55.48
Maryland Transportation Authority	31.53	36.42	13.41
Economic Development-Insurance Programs	1.35	2.04	0.12
Total percentage of business type activities	96.71	94.30	98.43
Component units:			
Major -			
Higher Education Foundations	11.21	17.05	14.34
Non-Major -			
Maryland Environmental Service	1.12	0.15	4.73
Maryland Food Center Authority	0.33	0.51	0.27
Total percentage of component units	12.66	17.71	19.34
Fiduciary Funds:			
Investment Trust Fund	4.51	4.93	56.05
Deferred Compensation Plan	5.00	5.53	3.40
Total percentage of fiduciary funds	9.51	10.46	59.45

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned funds and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland as of June 30, 2005, and the respective changes in the financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, required supplemental schedules of funding progress for the Pension and Retirement System and the Maryland Transit Administration Pension Plan; and the respective budgetary comparison for the budgetary general, special and Federal funds as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maryland's basic financial statements. The combining financial statements, schedules, introductory and statistical sections, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report and the financial schedules required by law have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ahrens, Foster, Nole & Williams, P.A.

STATE OF MARYLAND

Management's Discussion and Analysis

The management of the State of Maryland (State) provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2005. Please read it in conjunction with the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report and the State's financial statements which follow this section.

Financial Highlights

Government-wide

- Maryland reported net assets of \$16.9 billion and \$15.1 billion in fiscal years 2005 and 2004, respectively.
- Of this amount in fiscal year 2005, a balance of \$155 million was reported as total unrestricted net assets, which includes a \$1.3 billion deficit balance in governmental activities and \$1.5 billion positive balance in business-type activities.
- The State's total net assets increased by \$1.8 billion as a result of this year's operations. The net assets for governmental activities increased by \$1.4 billion (12.8%). Net assets of business-type activities increased by \$412 million (10.1%). The restatement of beginning net assets as a result of the change in accounting principle regarding the valuation of investments held to fund the Lottery's annuity prizes payable from the present value method to the fair value method was \$32.9 million.
- The State's governmental activities had total expenses of \$21.2 billion, total revenues of \$22.2 billion and net transfers from business-type activities of \$421 million for a net increase in net assets of \$1.4 billion.
- Business-type activities had total expenditures of \$2.0 billion, total revenues of \$2.8 billion, and transfers out of \$421 million for a net increase in net assets of \$379 million.
- Total State revenues were \$25 billion, while total costs for all programs were \$23.2 billion.

Fund Level

- Governmental funds reported a combined fund balance of \$3.2 billion, an increase of \$1.3 billion (65%) from the prior year.
- The General Fund reported an unreserved, undesignated fund balance of \$308 million and an unreserved, designated fund balance of \$777 million compared to an unreserved designated fund balance of \$127 million last year, an increase of \$957 million. The total unreserved fund balance in the governmental funds was \$1.1 billion, compared to the unreserved fund balance deficit of \$25 million in the prior year.
- Governmental funds reported a total reserved fund balance of \$2.1 billion, an increase of \$151 million over the prior year. Of this amount, \$540 million was in the "State Reserve Fund" and available for future needs, an increase of \$27 million over the prior year.

Long-term Debt

- Total bonds and obligations under long-term leases as of June 30, 2005 were \$9.2 billion, a net increase of \$277 million (3.1%) over the prior year.
- \$1.6 billion of General Obligation Bonds were issued during the year, of which \$856 million were used to refund bonds. The Department of Transportation did not issue bonds during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues earned and expenses incurred, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The above financial statements distinguish between the following three types of activities:

Governmental Activities - The activities in this section are typically supported by taxes and intergovernmental revenues, i.e., Federal grants. Most services normally associated with State government fall into this category, including the Legislature, Judiciary, and the general operations of the Executive Department.

Business-Type Activities - These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and State Use Industries.

Discretely Presented Component Units - The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College and certain affiliated foundations. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the College Savings Plans of Maryland.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 27 and 29) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned and other assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but are recognized on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized on the government-wide statements, but reported as expenditures in governmental funds.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other transactions represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 22-25 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, enterprise, and fiduciary. Each of these categories uses a different accounting approach.

Governmental funds - Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 26-29 of this report.

Enterprise funds – Enterprise funds are used to show activities that operate similar to activities of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements because they both utilize accrual accounting; the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major enterprise funds. These funds are: Economic Development - Loan Programs, the Unemployment Insurance Program, the Lottery Agency, and the Transportation Authority. Data for the non-major enterprise funds, Economic Development - Insurance Programs and State Use Industries, are combined into a single aggregated presentation. Individual fund data for these non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic enterprise funds financial statements can be found on pages 32-37 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual basis accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and Agency Funds. The Pension and Other Employee Benefits Trust Funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity of an external investment pool. Agency funds account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 38-39 of this report.

Combining Financial Statements, Component Units – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and the Statement of Activities. Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 42-44 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 46-81 of this report.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the budgetary general, special revenue and federal funds, along with a reconciliation of the statutory and governmental fund balances at fiscal year end. This report also presents certain required supplementary information concerning the State's progress in funding obligations to provide pension benefits to its employees and includes a footnote concerning budgeting and budgetary control. Required supplementary information immediately follows the notes to the financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with non-major governmental, non-major enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The State's combined net assets (government and business-type activities) totaled \$16.9 billion as of June 30, 2005, compared to \$15.1 billion as of the end of the previous year, an increase of \$1.8 billion or 12.1% during the current fiscal year. This increase reflects the improvement in revenues, mainly the various types of taxes, while the growth in expenses was contained.

Net Assets as of June 30, (Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
	as restated					
Current and other assets	\$ 8,619	\$ 6,431	\$6,022	\$5,793	\$14,641	\$12,224
Capital assets	16,810	16,059	1,499	1,471	18,309	17,530
Total assets	25,429	22,490	7,521	7,264	32,950	29,754
Long-term liabilities	7,103	6,496	2,747	3	9,850	6,499
Other liabilities	5,908	4,989	277	3,176	6,185	8,165
Total liabilities	13,011	11,485	3,024	3,179	16,035	14,664
Net assets:						
Invested in capital						
assets, net of related debt	12,940	11,937	1,218	1,332	14,158	13,269
Restricted	774	584	1,828	1,556	2,602	2,140
Unrestricted	(1,296)	(1,516)	1,451	1,197	155	(319)
Total net assets	\$ 12,418	\$ 11,005	\$4,497	\$4,085	\$16,915	\$15,090

The largest portion of the State's net assets, \$14.2 billion, reflects investment in capital assets such as land, buildings, equipment, and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

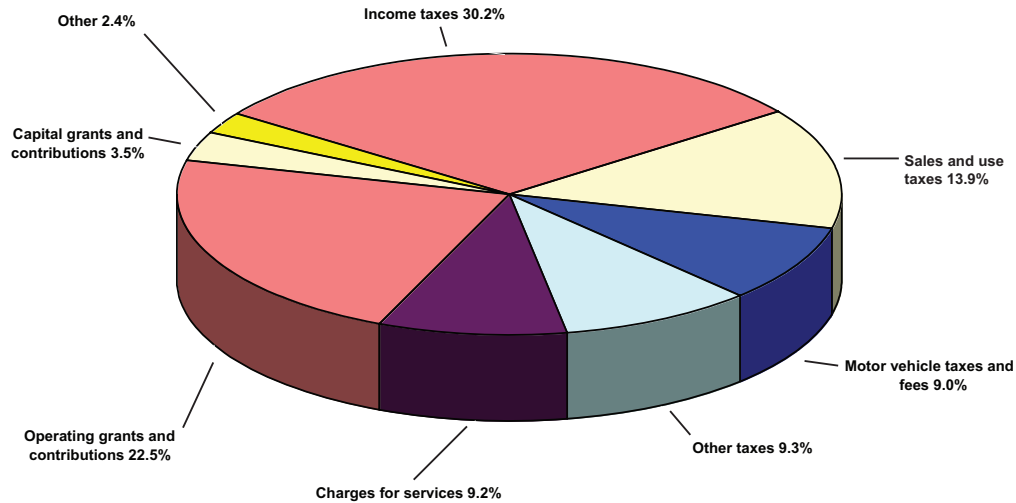
In addition, a portion of the State's net assets, \$2.6 billion, represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets, \$155 million, reflects the State's cumulative revenues over expenses.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

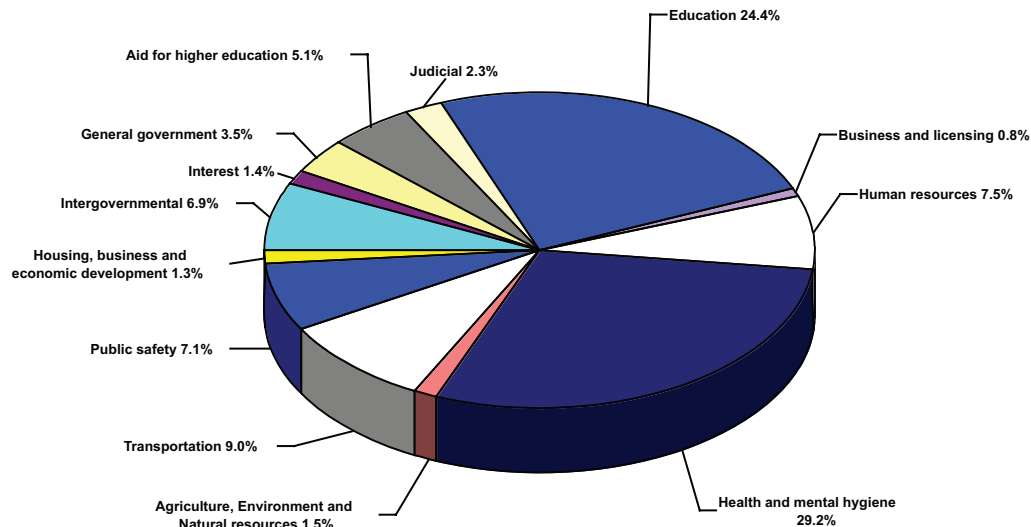
Changes in Net Assets
For the Years Ended June 30,
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
	as restated					
Revenues:						
Program revenues:						
Charges for services	\$ 2,070	\$ 2,017	\$2,678	\$2,407	\$ 4,748	\$ 4,424
Operating grants and contributions	5,091	5,205	26	130	5,117	5,335
Capital grants and contributions	788	719	52	58	840	777
General revenues:						
Income taxes	6,830	5,519			6,830	5,519
Sales and use taxes	3,150	2,945			3,150	2,945
Motor vehicle taxes	2,032	1,793			2,032	1,793
Other taxes	2,105	1,852			2,105	1,852
Unrestricted investment earnings	130	48	24	6	154	54
Total revenues	22,196	20,098	2,780	2,601	24,976	22,699
Expenses:						
General government	748	598			748	598
Health and mental hygiene	6,202	6,090			6,202	6,090
Education	5,180	4,872			5,180	4,872
Aid for higher education	1,074	1,081			1,074	1,081
Human resources	1,595	1,586			1,595	1,586
Public safety	1,499	1,398			1,499	1,398
Transportation	1,913	1,839			1,913	1,839
Judicial	476	440			476	440
Labor, licensing and regulation	170	176			170	176
Natural resources and recreation	185	170			185	170
Housing and community development	213	202			213	202
Environment	78	85			78	85
Agriculture	56	46			56	46
Business and economic development	58	59			58	59
Intergovernmental grants	1,453	1,461			1,453	1,461
Interest	304	279			304	279
Economic development programs			180	195	180	195
Unemployment insurance program			432	582	432	582
State Lottery			1,005	928	1,005	928
Transportation Authority			325	300	325	300
State Use Industries			38	34	38	34
Total expenses	21,204	20,382	1,980	2,039	23,184	22,421
Increase (decrease) in net assets before transfers and special items	992	(284)	800	562	1,792	278
Transfers and special items	421	436	(421)	(436)		
Change in net assets	1,413	152	379	126	1,792	278
Net assets - beginning	11,005	10,853	4,118	3,959	15,123	14,812
Net assets - ending	\$12,418	\$ 11,005	\$4,497	\$4,085	\$16,915	\$ 15,090

REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



EXPENDITURES BY FUNCTION - GOVERNMENTAL ACTIVITIES



Governmental Activities

Governmental activities in fiscal year 2005 resulted in an increase to the State's net assets of \$1.4 billion, compared to a net increase of \$152 million for the prior year. This increase occurred primarily because revenues increased by \$2.1 billion or 10.4%, while expenses increased by \$822 million or 4%. The revenue increase was primarily due to an overall increase in taxes of \$2 billion, \$1.3 billion of which was due to the increase in income tax revenue. Overall, the increase in expenses was primarily due to increases in general government of \$188 million, an increase in education of \$308 million, and public safety of \$101 million.

Business-type Activities

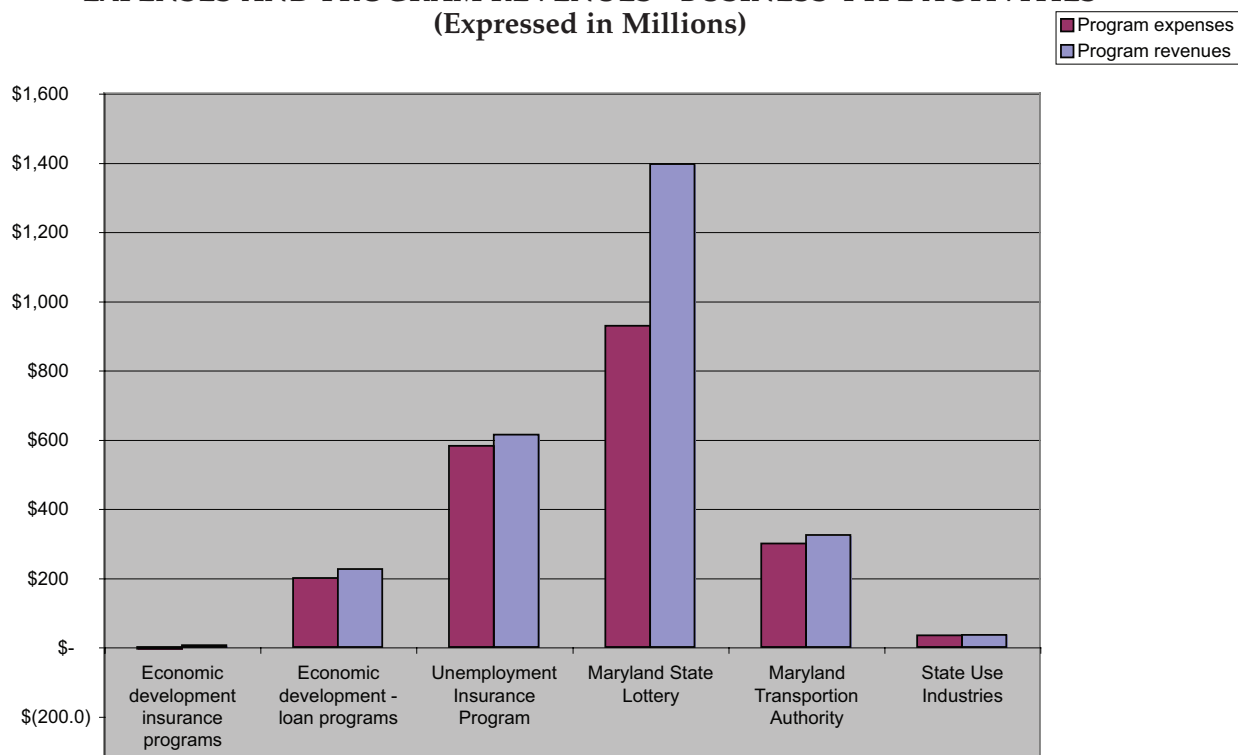
Business-type activities increased the State's net assets by \$800 million before transfers of \$421 million to governmental activities. Key elements of this increase are as follows:

- Lottery tickets sales increased \$90 million or 6.5% to \$1.5 billion. The increase to net assets before transfers to the general fund was \$478 million, an increase of \$11 million or 2.3% over the prior year. The increase in sales was attributable primarily to growth of the Pick Four, Keno-Keno Bonus and Mega Millions game.
- The Unemployment Insurance Program had an increase of \$52 million (10.7%) in charges for services over the prior year due to the continued effect of a legislatively mandated surcharge on all employers effective January 1, 2004. In addition, benefit payments decreased \$150 million from the prior year due to a decrease in the unemployment rate, contributing to the \$177 million increase in net assets.
- Loan programs had an increase of \$148 million in net assets over the prior year, primarily due to an increase in interest earnings of \$46 million, a decrease in expenses of \$14 million and an increase in transfers from the State's general

fund of \$32 million.

- Charges for services of the Transportation Authority increased by \$36 million (12%) due to the doubling of the toll fees of certain tunnels and bridges. Also, expenses related to operation and maintenance increased by \$16 million (6%).

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES (Expressed in Millions)



The change in net assets was an increase of \$47 million compared to a net increase of \$26 million for the prior year.

Financial Analysis of the State's Funds

As of the end of the current fiscal year, the State's governmental funds reported a combined fund balance of \$3.2 billion, an increase of \$1.3 billion from the prior year. The combined fund balance includes \$308 million in unreserved, undesignated fund balance and \$777 million in unreserved, designated fund balance for the general fund. It includes \$173 million in unreserved, undesignated fund balance for the special revenue fund and a deficit of \$181 million in unreserved, undesignated fund balance for the other governmental funds. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed to: 1) liquidate contracts and purchase orders of the prior period, \$671 million; 2) fund prepaid and inventory items, \$442 million; 3) restricted revenue carry forwards, \$418 million; and 4) reserve for various loans, construction projects, and debt service, \$30 million. In addition, \$540 million of the reserved fund balance is in the "State Reserve Fund," and is set aside to meet future financial needs. The unreserved general fund, fund balance, plus the amount in the State Reserve Fund, is approximately 7% of the total annual expenditures in governmental funds, compared with 3% for the prior year.

General Fund

The general fund is the major operating fund of the State. At the end of the current fiscal year, the undesignated and designated fund balance of the general fund was \$1.1 billion, while total general fund balance reached \$2.6 billion. The fund balance of the State's general fund increased by \$1.1 billion during 2005, compared to an increase of \$305 million for 2004. General fund revenues increased by \$2 billion (12%) over the prior year, primarily due to increases in income taxes and all other taxes of \$1.3 billion (24%) and \$413 million (10%), respectively. These increases reflect the overall improvement in the State's economy with a continued increase in new jobs and the continued growth in real estate values and sales. Federal revenues remained relatively steady, decreasing by \$76 million (1%). Other revenues increased by \$182 million (138%) due to increased revenues transferred to the State for abandoned property and miscellaneous collections.

General fund expenditures increased by \$858 million or 5.1 %. Although expenditures for most functions remained stable or decreased, expenditures for education, health and mental hygiene and general government increased by \$350 million (7.5%), \$265 million (4.4%), and \$75 million (12%), respectively, due to continued increased funding for public school education, and higher Medicaid and self-insurance costs.

Transfers out were \$276 million compared to \$173 million for the prior year. This increase was due primarily to an increase in general fund transfers of the corporate income tax to the special revenue fund.

Special Revenue Fund

The Maryland Department of Transportation special revenue fund accounts for resources used for operation other than debt service and pension activities of the State's transportation activities. The fund balance of the Department's special revenue fund was \$344 million as of June 30, 2005, a decrease of \$12 million (3.4%) from the prior fiscal year. This decrease was due primarily to the decrease in other sources of financial revenues, namely the Department's decision not to issue long term bonds during the year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget and the final budget and the actual expenditures for the year are summarized as follows.

Overall, the change between the original and final general fund budget was an increase of \$116 million or 1%. This increase was primarily the result of increased costs for health and public safety. An additional \$58 million was appropriated for Medicaid costs. Assistance costs for the support of local jails was greater than expected and resulted in an increase of \$20 million in appropriations. An additional \$8 million from the State Reserve Fund was appropriated to Juvenile Services for increased salaries at residential facilities. Also, there was a \$42 million decrease in Budget and Management which was primarily due to the reallocation of the original appropriation for costs of living adjustments from that department to the applicable State agencies.

Major differences between the final budget and actual expenditures were the result of continued encumbrances for additions and improvements to buildings for the Legislature and the Judiciary and for various multi-year projects related to information technology, financing programs of the Department of Business and Economic Development and the environment. The actual general fund expenditures during the year were \$170 million less than the final general fund budget. Of this amount, \$32 million was returned to the general fund, and the remaining \$158 million was encumbered for future spending.

Capital Asset and Debt Administration

Capital assets

As of June 30, 2005, the State had invested \$18.3 billion (net of accumulated depreciation) in a broad range of capital assets (see table below). Depreciation expense for the fiscal year totaled \$862 million (\$805 million for governmental activities and \$57 million for business-type activities). The increase in the State's investment in capital assets, net of depreciation expense, for the current fiscal year was 4.5% (4.7 % for governmental activities and 1.9% for business-type activities).

Capital Assets as of June 30,
(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2005	2004	2005	2004	2005	2004
Land and improvements	\$ 2,495	\$ 2,417	\$ 110	\$ 108	\$ 2,605	\$ 2,525
Art and historical treasures	27	27			27	27
Construction in progress	2,753	2,447			2,753	2,447
Structures and improvements	3,256	3,087	29		3,285	3,087
Equipment	816	795	12	13	828	808
Infrastructure	7,463	7,286	1,348	1,350	8,811	8,636
Total	\$16,810	\$16,059	\$1,499	\$1,471	\$18,309	\$17,530

Major capital asset events during the current fiscal year included continued construction at the Baltimore Washington International Airport and for various transportation projects, the preservation of agricultural and open space land through the purchase of easements, the lease/purchase of electronic voting machines, improvements to the statewide telecommunications network, energy efficiency improvements in State buildings and building improvements by the Department of Public Safety.

Additional information on the State's capital assets can be found in footnote 10 of this report.

Long-term debt

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues dedicated revenue bonds for the Department of Transportation and various business-type activities. The payment of principal and interest on revenue bonds comes solely from revenues received from the respective activities. This dedicated revenue debt is not backed by the State's full faith and credit.

As of June 30, 2005, the State had outstanding bonds totaling \$8.4 billion. Of this amount \$4.5 billion were general obligation bonds, backed by the full faith and credit of the State. The remaining \$3.9 billion was secured solely by the specified revenue sources.

Outstanding Bonded Debt as of June 30,
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds (backed by the State)	\$4,512	\$4,102			\$4,512	\$4,102
Transportation Bonds (backed by specific revenues)	1,072	1,188			1,072	1,188
Revenue Bonds (backed by specific revenues)			\$2,825	\$2,936	2,825	2,936
Total	\$5,584	\$5,290	\$2,825	\$2,936	\$8,409	\$8,226

The total increase in bonded debt in the current fiscal year was 2.2% (10% increase related to general obligation bonds and a 5.5 % decrease related to revenue bonds). The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poors and Fitch. During fiscal year 2005, the State issued general obligation debt totaling \$1.6 billion at a premium of \$153 million. On August 11, 2005, the State issued general obligation bonds aggregating \$450 million for capital improvements.

State law limits the amount of Consolidated Transportation Bonds, dedicated revenue debt, that may be outstanding as of June 30 to the amount established in the budget, not to exceed \$2 billion. The aggregate principal authorized to be outstanding as of June 30, 2005, was \$1.5 billion. The actual amount outstanding as of June 30, 2005 was \$1.1 billion in Consolidated Transportation Bonds which was under the amount authorized.

Additional information on the State's long-term debt can be found in footnote 11 of this report.

Economic Factors and Next Year's Budget

The State's total budget for fiscal year 2006 totals \$25.9 billion, a 4.2 percent increase over fiscal year 2005. The budget for fiscal year 2006 includes an increase of \$396.6 million in public school education, kindergarten through grade 12 and an increase of \$371 million in the Medicaid budget. The fiscal year 2006 budget also allots \$79.1 million to build state and local correctional facilities and \$8.5 million for drug treatment programs. Maryland's capital budgets for fiscal year 2006 total approximately \$2.8 billion. This amount includes \$947 million for state-owned capital projects as well as capital programs that provide grants and loans to local governments and the private and non-profit sectors. The remainder of the capital budget, \$1.9 billion is directed to highway projects, mass transit, and other transportation improvement. The proposed budget protects the State Reserve Fund and projects that the balance at the end of fiscal year 2006 will total \$796 million, an increase of \$256 million over fiscal year 2005.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.

BASIC FINANCIAL STATEMENTS

STATE OF MARYLAND

Statement of Net Assets

June 30, 2005

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,634,310	\$ 13,431	\$ 3,647,741	\$ 52,267
Investments	1,410,695	413,402	1,824,097	351,650
Endowment investments				153,713
Foundation investments				641,372
Inventories	82,693	12,344	95,037	10,903
Prepaid items	346,152		346,152	4,703
Deferred charges	7,562		7,562	7,027
Taxes receivable, net	784,765		784,765	
Intergovernmental receivables	892,014	450	892,464	
Tuition contracts receivable				268,423
Due from primary government				759,587
Due from component units	540		540	
Other accounts receivable	667,923	191,465	859,388	320,280
Loans and notes receivable, net	19,444	914,714	934,158	85,422
Loans to component units	160		160	
Investment in direct financing leases		456,193	456,193	304,220
Other assets	6,232	6,414	12,646	19,307
Collateral for lent securities	722,402		722,402	
Restricted assets:				
Cash and cash equivalents	36,186	1,336,529	1,372,715	99,792
Investments		1,247,616	1,247,616	107,075
Deferred charges		10,587	10,587	
Loans and notes receivable (net)	7,399	1,396,984	1,404,383	
Other		26,358	26,358	28
Capital assets, net of accumulated depreciation:				
Land	2,495,056	110,008	2,605,064	133,098
Art and historical treasures	27,118		27,118	343
Structures and other improvements	3,256,269	28,887	3,285,156	2,823,363
Equipment	815,429	11,971	827,400	110,155
Infrastructure	7,463,393	1,347,714	8,811,107	327,463
Construction in progress	2,753,072		2,753,072	350,910
Total capital assets	16,810,337	1,498,580	18,308,917	3,745,332
Total assets	25,428,814	7,525,067	32,953,881	6,931,101

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Salaries payable	154,706		154,706	103,592
Vouchers payable	262,341		262,341	
Accounts payable and accrued liabilities	1,295,611	168,834	1,464,445	141,310
Internal balances	291,596	(291,596)		
Due to component units	759,587		759,587	
Due to primary government				540
Loans from primary government				160
Accounts payable to political subdivisions	300,395		300,395	
Unearned revenue	12,380	12,541	24,921	109,842
Matured bonds and interest coupons payable	1,790		1,790	
Accrued insurance on loan losses		11,393	11,393	4,744
Accounts payable for local income taxes	1,261,707		1,261,707	
Other liabilities				2,718
Collateral obligations for lent securities	722,402		722,402	
Bonds and notes payable:				
Due within one year	485,635	317,999	803,634	83,838
Due in more than one year	5,414,553	2,507,316	7,921,869	1,362,666
Other noncurrent liabilities:				
Due within one year	359,606	62,182	421,788	93,822
Due in more than one year	1,688,762	239,580	1,928,342	685,696
Total liabilities	13,011,071	3,028,249	16,039,320	2,588,928
Net Assets				
Invested in capital assets, net of related debt	12,940,305	1,217,923	14,158,228	2,653,688
Restricted for:				
Health and mental hygiene	239,249		239,249	
Public safety	16,591		16,591	
Natural resources and recreation	43,097		43,097	
Environment	30,574		30,574	
Judiciary	50,786		50,786	
Transportation	220,655		220,655	
Debt service	127,855	68,295	196,150	7,166
Capital improvements and deposits	2,981	259,468	262,449	53,560
Higher education-nonexpendable				475,021
Higher education-expendable				410,351
Loans and notes receivable	7,399		7,399	83,730
Unemployment compensation benefits		978,228	978,228	
Loan programs		422,122	422,122	
Insurance programs		98,289	98,289	
Other	34,476	1,625	36,101	
Unrestricted (deficit)	(1,296,225)	1,450,868	154,643	658,657
Total net assets	\$12,417,743	\$4,496,818	\$16,914,561	\$4,342,173

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Activities

For the Year Ended June 30, 2005

(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Component Units
	Expenses	Operating		Capital	Primary Government				
		Charges for Services	Grants and Contributions		Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government - Governmental activities:									
General government	\$ 747,486	\$ 484,933	\$ 56,735	\$ 50	\$	(205,768)	\$	(205,768)	
Health and mental hygiene	6,202,439	320,596	2,707,775			(3,174,068)		(3,174,068)	
Education	5,180,165	65,140	814,090			(4,300,935)		(4,300,935)	
Aid for higher education	1,074,048					(1,074,048)		(1,074,048)	
Human resources	1,595,093	42,027	949,658			(603,408)		(603,408)	
Public safety	1,498,684	67,144	105,852	1,047		(1,324,641)		(1,324,641)	
Transportation	1,912,602	580,691	79,892	785,064		(466,955)		(466,955)	
Judicial	476,253	384,985	4,176			(87,092)		(87,092)	
Labor, licensing and regulation	170,344	25,797	130,619			(13,928)		(13,928)	
Natural resources and recreation	184,599	39,814	22,160	722		(121,903)		(121,903)	
Housing and community development	212,753	18,760	185,000			(8,993)		(8,993)	
Environment	78,238	23,637	30,776			(23,825)		(23,825)	
Agriculture	55,985	14,599	3,613	1,328		(36,445)		(36,445)	
Business and economic development	58,127	1,115	707			(56,305)		(56,305)	
Intergovernmental grants	1,453,408					(1,453,408)		(1,453,408)	
Interest	303,539					(303,539)		(303,539)	
Total governmental activities	21,203,763	2,069,238	5,091,053	788,211		(13,255,261)		(13,255,261)	
Business-type activities:									
Economic development - insurance programs	(132)	5,392			\$	5,524	\$	5,524	
Economic development - general loan programs	31,010	12,395				(18,615)		(18,615)	
Economic development - water quality loan programs	10,574	20,252		51,448		61,126		61,126	
Economic development - housing loan programs	138,723	164,340				25,617		25,617	
Unemployment insurance program	432,125	590,805	18,702			177,382		177,382	
Maryland State Lottery	1,005,275	1,485,733				480,458		480,458	
Maryland Transportation Authority	324,838	359,157	7,504			41,823		41,823	
State Use Industries	37,937	39,958				2,021		2,021	
Total business-type activities	1,980,350	2,678,032	26,206	51,448		775,336		775,336	
Total primary government	\$23,184,113	\$4,747,270	\$5,117,259	\$839,659		(13,255,261)		775,336	(12,479,925)

STATE OF MARYLAND

Balance Sheet
Governmental Funds
June 30, 2005
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$3,528,035		\$ 106,275	\$3,634,310
Cash and cash equivalents - restricted		\$ 30,049	1,456	31,505
Cash with fiscal agent - restricted			4,681	4,681
Investments	1,410,695			1,410,695
Prepaid items	286,714	59,438		346,152
Taxes receivable, net	689,565	87,975	7,225	784,765
Intergovernmental receivables	661,617	230,397		892,014
Other accounts receivable	551,048	116,588	287	667,923
Due from other funds	54,273	209,373	137,092	400,738
Due from component units	540			540
Inventories	22,434	60,259		82,693
Loans and notes receivable, net	1,143	8,721	9,580	19,444
Loans and notes receivable - restricted			7,399	7,399
Loans to component units	160			160
Collateral for lent securities	722,402			722,402
Total assets	\$7,928,626	\$802,800	\$ 273,995	\$9,005,421
Liabilities:				
Salaries payable	\$ 141,676	\$ 13,030		\$ 154,706
Vouchers payable	196,338	31,269	\$ 34,734	262,341
Accounts payable and accrued liabilities	926,210	290,251	13,348	1,229,809
Due to other funds	666,878	25,456		692,334
Due to component units	759,587			759,587
Accounts payable to political subdivisions	1,467,054	82,575	12,474	1,562,103
Deferred revenue	323,307	16,633	119	340,059
Matured bonds and interest coupons payable			1,790	1,790
Accrued self-insurance costs	103,217			103,217
Collateral obligations for lent securities	722,402			722,402
Total liabilities	5,306,669	459,214	62,465	5,828,348
Fund balances:				
Reserved for:				
State reserve fund	540,110			540,110
Encumbrances	259,802	38,021	373,598	671,421
Prepaid items and inventories	322,305	119,697		442,002
Loans and notes receivable	575	6,773	16,505	23,853
Construction projects		2,981		2,981
Restricted revenues	414,773	3,020		417,793
Debt service			2,916	2,916
Unreserved:				
Designated	776,867			776,867
Undesignated, (deficit) reported in:				
General fund	307,525			307,525
Special revenue fund		173,094		173,094
Non-major debt service funds			115,833	115,833
Non-major capital projects fund			(297,322)	(297,322)
Total fund balance	2,621,957	343,586	211,530	3,177,073
Total liabilities and fund balances	\$7,928,626	\$802,800	\$ 273,995	\$9,005,421

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Reconciliation of the Governmental Funds' Fund Balance
to the Statement of Net Assets, Net Assets' Balance**

June 30, 2005

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Net Assets (page 23) differ from the amounts for the governmental funds' fund balances because:

Amount in governmental funds, fund balance (page 26)	\$ 3,177,073
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	16,810,337
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds	327,679
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds	(105,602)
Other assets not available to pay for current period expenditures	6,788
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds	(4,511,827)
Deferred charges to be amortized over the life of the debt	76,252
Premiums to be amortized over the life of the debt	(316,002)
Transportation Bonds	(1,071,620)
Deferred charges to be amortized over the life of the debt	10,586
Premiums to be amortized over the life of the debt	(80,572)
Accrued self-insurance costs	(187,216)
Accrued annual leave	(244,967)
Pension liabilities	(279,618)
Other long term liabilities	(449,092)
Obligation under capital leases	(440,236)
Obligations under capital leases with component units	(304,220)
Net assets of governmental activities (page 23)	<u>\$12,417,743</u>

The accompanying notes to the financial statements are an integral part of these financial statements

STATE OF MARYLAND
**Statement of Revenues, Expenditures
and Changes in Fund Balances**
Governmental Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 6,814,378			\$ 6,814,378
Sales and use taxes	3,153,676			3,153,676
Motor vehicle taxes and fees		\$2,031,862		2,031,862
Other taxes	1,585,267		\$ 520,095	2,105,362
Other licenses and fees	759,953			759,953
Charges for services	561,657	416,878		978,535
Revenues pledged as security for bonds		70,875		70,875
Interest and other investment income	93,819	5,002	3,711	102,532
Federal revenue	5,093,047	823,186		5,916,233
Other	314,019	16,632	573	331,224
Total revenues	18,375,816	3,364,435	524,379	22,264,630
Expenditures:				
Current:				
General government	700,391			700,391
Health and mental hygiene	6,329,383			6,329,383
Education	5,024,928		136,558	5,161,486
Aid to higher education	856,971		217,077	1,074,048
Human resources	1,569,032			1,569,032
Public safety	1,435,406			1,435,406
Transportation		1,273,622		1,273,622
Judicial	462,568			462,568
Labor, licensing and regulation	166,787			166,787
Natural resources and recreation	167,018			167,018
Housing and community development	211,577			211,577
Environment	76,393			76,393
Agriculture	56,624			56,624
Business and economic development	57,287			57,287
Intergovernmental	555,810	724,567	173,031	1,453,408
Capital outlays		1,409,119	122,342	1,531,461
Debt service:				
Principal retirement			464,650	464,650
Interest			258,791	258,791
Bond issuance costs	572		2,503	3,075
Total expenditures	17,670,747	3,407,308	1,374,952	22,453,007
Excess (deficiency) of revenues over (under) expenditures	705,069	(42,873)	(850,573)	(188,377)
Other sources (uses) of financial resources:				
Capital leases	38,318	116,116		154,434
Other long-term liabilities		12,321		12,321
Bonds issued			784,043	784,043
Refunding bonds issued			855,840	855,840
Bond premium			153,437	153,437
Payments to refunded bond escrow agent			(940,591)	(940,591)
Transfers in	664,660	233,781	165,088	1,063,529
Transfers out	(275,527)	(331,358)	(35,824)	(642,709)
Total other sources of financial resources	427,451	30,860	981,993	1,440,304
Net change in fund balances	1,132,520	(12,013)	131,420	1,251,927
Fund balances, June 30, 2004	1,489,437	355,599	80,110	1,925,146
Fund balances, June 30, 2005	\$ 2,621,957	\$ 343,586	\$ 211,530	\$ 3,177,073

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Reconciliation of the Statement of the Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005
(Expressed in Thousands)**

Amounts reported for governmental activities in the Statement of Activities (pages 24-25) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because of the following:

Net change in fund balances - total governmental funds (page 28)		\$1,251,927
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlays	\$1,546,180	
Depreciation expense	<u>(805,309)</u>	740,871

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.

Net loss on disposals and trade-ins	<u>(8,454)</u>	(8,454)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:

Deferred revenues for taxes are recognized,		
net of revenue already recognized in the prior year	11,246	
Deferred revenues for other revenues are recognized,		
net of revenue already recognized in the prior year	<u>(126,665)</u>	(115,419)

The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.

Debt issued, General Obligation Bonds	(1,734,884)	
Capital lease financing	(153,053)	
Premiums, discounts and issuance costs	26,481	
Principal repayments:		
General Obligation Bonds	1,230,335	
Transportation Bonds	116,470	
Capital leases	76,259	
Other long-term financing	<u>1,241</u>	(437,151)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(8,094)	
Self-insurance	(9,926)	
Net pension obligation	(138,422)	
Accrued interest	(14,073)	
Other long term liabilities	<u>151,183</u>	(19,332)

Change in net assets of governmental activities (page 25)		<u>\$1,412,442</u>
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The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND
ENTERPRISE FUND FINANCIAL STATEMENTS

Major Funds

Economic Development Loan Programs

This fund includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

Unemployment Insurance Program

This fund reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment assessments collected from employers, Federal revenue received and remittance of benefits to the unemployed.

Maryland State Lottery Agency

This fund accounts for the operation of the State Lottery

Maryland Transportation Authority

This fund accounts for the activity of the Maryland Transportation Authority, which is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Non-major Funds

Other Enterprise Funds

Individual non-major enterprise funds are presented in the combining section following the footnotes.

STATE OF MARYLAND

Statement of Net Assets

Enterprise Funds

June 30, 2005

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets -						
Current assets:						
Cash and cash equivalents	\$ 130		\$ 557	\$ 12,734	\$ 10	\$ 13,431
Investments	170,147			191,599		361,746
Other accounts receivable	11,529	\$ 136,234	21,083	17,645	4,974	191,465
Due from other funds	155,267		63,762	270	111,673	330,972
Intergovernmental receivables				450		450
Inventories			3,282	1,587	7,475	12,344
Loans and notes receivable, net	46,072				129	46,201
Investment in direct financing leases				23,359		23,359
Other assets	100		43		1,592	1,735
Current restricted assets:						
Cash and cash equivalents	267,342			201,491		468,833
Cash on deposit with U.S. Treasury		867,696				867,696
Investments	266,808		45,071	93,501		405,380
Loans and notes receivable, net	48,302					48,302
Other accounts receivable	25,822					25,822
Total current assets	991,519	1,003,930	133,798	542,636	125,853	2,797,736
Non-current assets:						
Investments	50,551				1,105	51,656
Due from other funds				9,618		9,618
Loans and notes receivable, net	867,998				515	868,513
Investment in direct financing leases				432,834		432,834
Other assets				4,679		4,679
Restricted non-current assets:						
Investments	627,400		214,836			842,236
Deferred charges	10,587					10,587
Loans and notes receivable, net	1,348,682					1,348,682
Other accounts receivable	536					536
Capital assets, net of accumulated depreciation:						
Land				110,008		110,008
Structures and improvements				28,444	443	28,887
Equipment	47		2,109	4,271	5,544	11,971
Infrastructure				1,347,618	96	1,347,714
Total non-current assets	2,905,801		216,945	1,937,472	7,703	5,067,921
Total assets	3,897,320	1,003,930	350,743	2,480,108	133,556	7,865,657

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities -						
Current liabilities:						
Accounts payable and accrued liabilities	64,638	25,702	31,947	45,010	1,537	168,834
Due to other funds	398		38,307	10,289		48,994
Accrued insurance on loan losses ...	142				11,251	11,393
Other liabilities	14,708		45,004	1,315	1,155	62,182
Deferred revenue	26		3,237	8,114	1,164	12,541
Revenue bonds payable - current ...	289,919			28,080		317,999
Total current liabilities	369,831	25,702	118,495	92,808	15,107	621,943
Non-current liabilities:						
Other liabilities	37,109		186,902	14,064	1,505	239,580
Revenue bonds payable	1,771,837			735,479		2,507,316
Total non-current liabilities	1,808,946		186,902	749,543	1,505	2,746,896
Total liabilities	2,178,777	25,702	305,397	842,351	16,612	3,368,839
Net Assets -						
Invested in capital assets, net of related debt	47		436	1,211,357	6,083	1,217,923
Restricted for:						
Debt service				68,295		68,295
Capital improvements				259,468		259,468
Unemployment compensation benefits		978,228				978,228
Loan programs	422,122					422,122
Insurance programs					98,289	98,289
Other				1,625		1,625
Unrestricted	1,296,374		44,910	97,012	12,572	1,450,868
Total net assets	\$1,718,543	\$978,228	\$45,346	\$1,637,757	\$116,944	\$4,496,818

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)**

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Lottery ticket sales			\$1,485,733			\$1,485,733
Charges for services and sales	\$ 8,367	\$543,994		\$ 329,833	\$ 42,575	924,769
Loan and grant recoveries	8,682	6,898				15,580
Unrestricted interest on loan income	19,966				559	20,525
Restricted interest on loan income ..	90,358					90,358
Other	3,364			7,504	13	10,881
Total operating revenues	130,737	550,892	1,485,733	337,337	43,147	2,547,846
Operating expenses:						
Prizes and claims			856,232			856,232
Commissions and bonuses			97,592			97,592
Cost of sales and services			20,183		31,689	51,872
Operation and maintenance of facilities	3,678			225,887		229,565
General and administrative	24,312		29,678	10,705	8,300	72,995
Benefit payments		432,125				432,125
Restricted interest expense	104,808					104,808
Depreciation and amortization	5,188		1,500	54,092	1,098	61,878
Provision for (reduction in) insurance on loan losses	7,594				(3,282)	4,312
Other	28,103					28,103
Total operating expenses	173,683	432,125	1,005,185	290,684	37,805	1,939,482
Operating income (loss)	(42,946)	118,767	480,548	46,653	5,342	608,364
Non-operating revenues (expenses):						
Unrestricted interest and other investment income	21,172		(2,237)	5,314		24,249
Restricted interest and other investment income	66,250	39,913		29,324	2,200	137,687
Interest expense			(90)	(34,154)		(34,244)
Federal grants and distributions		18,702				18,702
Other	(6,624)				3	(6,621)
Total non-operating revenues (expenses)	80,798	58,615	(2,327)	484	2,203	139,773
Income before contributions and transfers	37,852	177,382	478,221	47,137	7,545	748,137
Capital contributions	51,448					51,448
Transfers in	63,053					63,053
Transfers out	(4,775)		(477,098)		(2,000)	(483,873)
Change in net assets	147,578	177,382	1,123	47,137	5,545	378,765
Total net assets - beginning	1,570,965	800,846	11,282	1,590,620	111,399	4,085,112
Restatement of prior period (Note 1)			32,941			32,941
Total net assets - ending	\$1,718,543	\$978,228	\$ 45,346	\$1,637,757	\$116,944	\$4,496,818

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND

Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers	\$ 541,616	\$ 544,564	\$1,486,270	\$ 323,418	\$ 41,549	\$ 2,937,417
Payments to suppliers	(1,834)		(39,906)	(229,852)	(27,333)	(298,925)
Payments to employees	(10,162)		(10,396)	(66,293)	(13,861)	(100,712)
Other receipts (payments)	(425,089)	(427,945)	(96,255)	29,365	1,553	(918,371)
Lottery prize payments			(860,642)			(860,642)
Net cash provided (used) by operating activities	104,531	116,619	479,071	56,638	1,908	758,767
Cash flows from noncapital financing activities:						
Proceeds from the sale of revenue bonds	395,710					395,710
Payment on revenue bonds	(644,973)			(22,205)		(667,178)
Interest payments	(100,866)			(6,649)		(107,515)
Transfers in	60,785					60,785
Transfers out	(4,775)		(478,645)		(2,000)	(485,420)
Capital contributions	52,004					52,004
Grants		18,702				18,702
Lottery installment payments			(48,563)			(48,563)
Other	(7,448)	4,523				(2,925)
Net cash provided (used) by noncapital financing activities ..	(249,563)	23,225	(527,208)	(28,854)	(2,000)	(784,400)
Cash flows from capital and related financing activities:						
Proceeds from notes payable and revenue bonds				160,730		160,730
Principal paid on notes payable and revenue bonds				(5,945)		(5,945)
Interest payments			(90)	(22,893)		(22,983)
Acquisition of capital assets	(20)		(100)	(83,797)	(2,108)	(86,025)
Payment of capital lease obligations ..			(1,459)			(1,459)
Net cash provided (used) by capital and related financing activities ..	(20)		(1,649)	48,095	(2,108)	44,318
Cash flows from investing activities:						
Purchase of investments	(779,708)			(1,885,738)		(2,665,446)
Proceeds from maturity and sale of investments	939,036		48,563	1,738,875		2,726,474
Interest on investments	22,430	39,913		10,502	2,200	75,045
Acquisition of assets leased in direct financing leases				(85,049)		(85,049)
Receipts from investment in direct financing leases				95,139		95,139
Net cash provided (used) by investing activities	181,758	39,913	48,563	(126,271)	2,200	146,163
Net change in cash and cash equivalents	36,706	179,757	(1,223)	(50,392)		164,848
Balance - beginning of the year ...	230,766	687,939	1,780	264,617	10	1,185,112
Balance - end of the year	\$ 267,472	\$ 867,696	\$ 557	\$ 214,225	\$ 10	\$ 1,349,960

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (42,946)	\$118,767	\$480,548	\$ 46,653	\$ 5,342	\$608,364
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization ...	2,365		1,500	54,092	1,098	59,055
Interest on bonds	117,339					117,339
Effect of changes in assets and liabilities:						
Other accounts receivable	9,433	(6,329)	887	131	(747)	3,375
Intergovernmental receivables				(125)		(125)
Due from other funds	12,166		1,231		287	13,684
Inventories			(1,966)	(436)	(1,276)	(3,678)
Loans and notes receivable	60,091				70	60,161
Other assets	64		49		1,479	1,592
Investments	(55,975)					(55,975)
Accounts payable and accrued liabilities	(3,075)	4,181	(2,990)	(44,782)	(452)	(47,118)
Due to other funds	(1,028)			(2,835)		(3,863)
Accrued insurance on loan losses .	(41)				(3,695)	(3,736)
Other liabilities	6,058		162	1,016	372	7,608
Deferred revenue	80		(350)	2,924	(570)	2,084
Total adjustments	147,477	(2,148)	(1,477)	9,985	(3,434)	150,403
Net cash provided by operating activities	\$ 104,531	\$116,619	\$479,071	\$ 56,638	\$ 1,908	\$758,767
Noncash transactions (amounts expressed in thousands):						
Loan Programs -						
Unrealized loss on investments	\$ (1,155)					
Lottery Agency -						
Unrealized loss on investments			\$ (2,237)			
Transportation Authority -						
Additions to capital assets				\$ 4,633		

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Agency Funds
Assets:			
Cash and cash equivalents	\$ 939,394		\$ 60,015
Investments:			
U.S. Treasury and agency obligations	661,852	\$1,122,724	
Repurchase agreements		486,752	
Bonds	1,259,841		
Corporate equity securities	7,916,071		
Commercial paper		84,778	
Bankers acceptances		9,500	
Mortgage related securities	1,751,919		
Mutual funds	18,481,465	88,020	
Guaranteed investment contracts	509,833		
Real estate	834,402		
Annuity contracts	155,671		
Private equity	161,978		
Investment held by borrowers under securities lent with cash collateral	2,423,187		
Total investments	34,156,219	1,791,774	
Taxes receivable, net			176,594
Accounts receivable from state treasury			1,372,945
Other receivables	396,042	992	2,400
Collateral for lent securities	2,485,395		
Total assets	37,977,050	1,792,766	1,611,954
Liabilities:			
Accounts payable to state treasury			103,127
Accounts payable and accrued liabilities	1,333,911	19,800	123,558
Accounts payable to political subdivisions			1,385,269
Collateral obligation for lent securities	2,485,395		
Total liabilities	3,819,306	19,800	1,611,954
Net assets:			
Held in trust for:			
Pension benefits (A schedule of funding progress for each of the plans may be found on pages 87 & 88) ...	32,170,739		
Deferred compensation benefits	1,987,005		
Local Government Investment Pool participants		1,772,966	
Total net assets	\$34,157,744	\$1,772,966	\$

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2005

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund
Additions:		
Contributions:		
Employers	\$ 259,550	
Members	351,553	\$5,041,097
Sponsors	430,699	
Total contributions	1,041,802	5,041,097
Investment earnings:		
Net increase in fair value of investments	2,486,801	
Interest	297,752	37,451
Dividends	221,500	
Real estate operating net earnings	32,453	
Net change in annuity reserves	4,998	
Total investment earnings	3,043,504	37,451
Less: investment expense	102,806	
Net investment earnings	2,940,698	37,451
Total additions	3,982,500	5,078,548
Deductions:		
Benefit payments	1,827,614	
Distributions to participants		37,451
Redemptions (unit transactions at \$1.00 per unit)		4,909,696
Refunds	19,162	
Administrative expenses	27,826	
Total deductions	1,874,602	4,947,147
Change in net assets	2,107,898	131,401
Net assets - beginning	32,049,846	1,641,565
Net assets - ending	\$34,157,744	\$1,772,966

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND
COMPONENT UNIT FINANCIAL STATEMENTS

Major Component Units

Higher Education

Higher education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single component unit. The financial information for certain foundations affiliated with the universities and colleges has not been included in this fund in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Stadium Authority

The Maryland Stadium Authority was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State.

Non-major Component Units

Other Component Units

Non-major component units are presented individually in the combining section following the footnotes.

STATE OF MARYLAND

Combining Statement of Net Assets

Component Units

June 30, 2005

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Assets:				
Cash and cash equivalents	\$ 47,907	\$ 288	\$ 4,072	\$ 52,267
Investments	2,892		348,758	351,650
Endowment investments	153,713			153,713
Foundation investments	641,372			641,372
Tuition contracts receivable	86,853		181,570	268,423
Other accounts receivable	299,182	6,617	14,481	320,280
Due from primary government	715,673	4,799	39,115	759,587
Inventories	10,903			10,903
Prepaid items	4,703			4,703
Deferred charges	2,390	4,637		7,027
Loans and notes receivable, net	80,534	4,888		85,422
Investments in direct financing leases		295,053	9,167	304,220
Other assets	6,876	151	12,280	19,307
Restricted assets:				
Cash and cash equivalents	99,717	75		99,792
Investments	68,694	14,142	24,239	107,075
Other	28			28
Capital assets, net of accumulated depreciation:				
Land	127,315		5,783	133,098
Art and historical treasures	343			343
Structures and improvements	2,560,923	244,127	18,313	2,823,363
Infrastructure	108,757		1,398	110,155
Equipment	317,772	1,354	8,337	327,463
Construction in progress	348,619		2,291	350,910
Total assets	5,685,166	576,131	669,804	6,931,101
Liabilities:				
Salaries payable	103,592			103,592
Accounts payable and accrued liabilities	123,626	5,558	12,126	141,310
Due to primary government		540		540
Loans from primary government			160	160
Unearned revenue	96,821	12,652	369	109,842
Accrued insurance on loan losses			4,744	4,744
Other liabilities	2,439		279	2,718
Bonds and notes payable:				
Due within one year	67,933	12,915	2,990	83,838
Due in more than one year	1,043,952	296,272	22,442	1,362,666
Other noncurrent liabilities:				
Due within one year	69,119	87	24,616	93,822
Due in more than one year	117,410	559	567,727	685,696
Total liabilities	1,624,892	328,583	635,453	2,588,928

	Higher Education	Stadium Authority	Other Component Units	Total
Net Assets:				
Invested in capital assets, net of related debt	2,396,929	231,290	25,469	2,653,688
Restricted:				
Debt service		3,414		3,414
Capital improvements and deposits		10,802		10,802
Nonexpendable:				
Scholarships and fellowships	180,533			180,533
Research	6,271			6,271
Other	288,217			288,217
Expendable:				
Debt service	3,752			3,752
Capital projects	42,758			42,758
Loans and notes receivable	83,730			83,730
Scholarships and fellowships	108,283			108,283
Research	101,870			101,870
Other	200,198			200,198
Unrestricted	647,733	2,042	8,882	658,657
Total net assets	\$4,060,274	\$247,548	\$ 34,351	\$4,342,173

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Combining Statement of Activities

Component Units

For the Year Ended June 30, 2005

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Expenses:				
General and administrative		\$ 5,687	\$ 11,861	\$ 17,548
Operation and maintenance of facilities	\$ 231,298	16,663	70,377	318,338
Provision for insurance on loan losses, net			(313)	(313)
Instruction	946,167			946,167
Research	660,559			660,559
Public service	146,888			146,888
Academic support	265,385			265,385
Student services	129,836			129,836
Institutional support	311,278			311,278
Scholarships and fellowships	62,050			62,050
Tuition benefits			62,417	62,417
Auxiliary	360,670			360,670
Hospitals	61,940			61,940
Interest on long-term debt	47,872	18,854	1,478	68,204
Depreciation and amortization	2,096	13,228	2,693	18,017
Foundation expenses	111,801			111,801
Other	3,003	3,843	812	7,658
Total expenses	3,340,843	58,275	149,325	3,548,443
Program revenues:				
Charges for services:				
Student tuition and fees (net of \$158,797 in allowances)	831,783			831,783
Auxiliary enterprises (net of \$20,705 in allowances)	402,579			402,579
Restricted investment earnings	73,455	1,307	277	75,039
Other	156,254	28,899	172,024	357,177
Total charges for services	1,464,071	30,206	172,301	1,666,578
Operating grants and contributions	1,151,982	22,794		1,174,776
Capital grants and contributions	180,949	8,110	2	189,061
Total program revenues	2,797,002	61,110	172,303	3,030,415
Net program revenue (expense)	(543,841)	2,835	22,978	(518,028)
General revenues:				
Grants and contributions not restricted to specific programs	866,624			866,624
Unrestricted investment earnings	54,504	104	25,761	80,369
Additions to permanent endowments	728			728
Total general revenues and additions to permanent endowments	921,856	104	25,761	947,721
Change in net assets	378,015	2,939	48,739	429,693
Net assets - beginning	3,682,259	244,609	(14,388)	3,912,480
Net assets - ending	\$4,060,274	\$247,548	\$ 34,351	\$4,342,173

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND

Notes to the Financial Statements For the year ended June 30, 2005

1. Summary of Significant Accounting Policies:

A. Reporting Entity

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual statements are presented for each.

Higher Education (Proprietary Fund Type) – Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, Federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Some of the financial information for foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Stadium Authority (Proprietary Fund Type) - The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight members are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The Maryland College Prepaid Trust is directed by the Maryland Higher Education Investment Board. The Board consists of four State officials and five members of the public appointed by the Governor. The Trust provides a method for Maryland citizens to save money for college tuition.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

Related Organizations

The Maryland Economic Development Corporation, Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The Governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship.

B. Government-wide and Fund Financial Statements

The State's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements except for certain charges for services between activities that would distort the direct costs and program revenues reported for the applicable functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund other than the agency funds, financial statements. The agency funds are reported using the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

General Fund:

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety, judicial, labor, licensing and regulation, natural resources and recreation, housing and community development, environment, agriculture, and business and economic development. Resources obtained from Federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

Maryland Department of Transportation, Special Revenue Fund:

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

Enterprise Funds:

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.
2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, Federal revenue received and remittance of benefits to the unemployed.
3. The Maryland State Lottery Agency operates the State Lottery.
4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

The State reports the following fiduciary funds.

1. The Pension and Other Employee Benefits Trust Fund includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and net assets of the plans administered by the State and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is reported as of and for its period ended December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to Federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.
2. The Investment Trust Fund reflects the transactions, assets, liabilities and net assets of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.
3. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of litigants, patient and prisoner accounts, various taxes collected by the State for distribution to political subdivisions and amounts withheld from employees' payroll.

D. Change in Accounting Principles and Restatement of Beginning Balances:

As of July 1, 2004, the State Lottery Agency, an enterprise fund, changed its accounting principle regarding the valuation of investments held to fund annuity prizes payable from the present value method to the fair value method as permitted by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement resulted in changes in the unrealized value of investments recognized as income. Accordingly, the beginning net assets for the State Lottery Agency are restated as follows (amounts expressed in thousands).

Beginning net assets as previously reported	\$11,282
Recognition of net increase in fair value of investments	<u>32,941</u>
Beginning net assets, as restated	<u>\$44,223</u>

E. Implementation of New Pronouncement:

Effective July 1, 2004, the State has implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3, which addresses common deposit and investment risks. This standard had no impact on the State's financial position.

F. New Pronouncements:

In November 2003, GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, effective for periods beginning after December 15, 2004. In June 2004, Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, was issued by the GASB effective for periods beginning after December 15, 2006. In December 2004, GASB issued Statement No. 46, Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34, which clarifies the meaning of a legally enforceable enabling legislation restriction for the purpose of restricting net assets. In June 2005, Statement No. 47, Accounting for Termination Benefits, was issued by the GASB. GASB Statements No. 46 and 47 are effective for periods beginning after June 15, 2005. The State is in the process of assessing the impact of these statements and will implement them as of the effective dates. Although the assessment of the impact of GASB Statement No. 45 is not completed, it is expected to have a material effect on the State's financial position.

2. Significant Accounting Policies - Assets, Liabilities and Net Assets or Equity:

A. All Funds:

Deposits with Financial Institutions and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Investments are recorded at fair value and changes in fair value are recognized as revenue. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents.

The State Retirement and Pension System of Maryland (System), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the System. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System. The System is authorized by Section 21-116 of the State Personnel and Pensions Article to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to, common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and non-U.S. companies; private equity - direct/partnership/funds; real estate investment trusts; commingled real estate funds; directly owned real estate; fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, and supra-national organizations; futures and options; foreign exchange forward and future contracts and options; equity index futures; and equity options.

Investments of the System and the Maryland Transit Administration (MTA) Pension Plan are stated at fair value. The investments of the MTA Pension Plan are held and invested on their behalf by the System. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of real estate investments which are based on estimated current values and independent appraisals. Fair value for private equity investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers.

State employees are offered participation in deferred compensation plans created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b), and 457. The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans is responsible for the implementation, maintenance and administration of the Plans. The Board has appointed a private company as the Plans' administrator. Assets of the Plans are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plans are stated at fair value. Fair value of the investments is valued at cost plus interest credited for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment carrier, for variable earnings investments.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems. (See Footnote 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary funds and discretely presented component units on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

Capital Assets:

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure acquired prior to June 30, 1980, is not reported. Capital assets are defined by the government as assets with an initial, individual cost of more than \$50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	5-50
Building improvements	5-50
Vehicles	3-25
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

Long-term Obligations:

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Resources:

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

Debt Refinancing:

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the remaining life of the old debt or the life of the new debt whichever is shorter.

Net Assets:

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal of the related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State. Unrestricted net assets are total net assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets are comprised mainly of cash, investments, loans, and receivables.

B. Governmental Funds:

Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

Grants:

Revenues from Federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

Income Taxes:

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

Sales and Use Taxes:

The State accrues June sales taxes that are not remitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

Property Taxes:

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real property subject to taxation, due and payable each July 1 and December 1 (lien dates), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at 100% of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate in fiscal year 2005 was 13.2 ¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1 and January 1, respectively, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Property taxes are accrued to the extent they are collected within 60 days of year end.

Escheat Property:

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. The asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

Intergovernmental Expenditures:

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions and other public organizations, are recorded as intergovernmental expenditures. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

Capital Assets:

Expenditures for capital assets are reported as capital outlays in the governmental funds.

Compensated Absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

C. Enterprise Funds, Fiduciary Funds and Component Units:

Basis of Accounting:

The accounts of the enterprise funds, fiduciary funds, and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide business-type activities and the enterprise fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents:

The enterprise funds consider all highly liquid investments that mature within 90 days of purchase to be cash and cash equivalents for reporting on the statement of cash flows.

Grants:

Revenues from Federal reimbursement type grants are recorded when the related expenses are incurred.

Capital Assets:

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 5 to 50 years for depreciable real property and building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues, Prizes and Related Transfers:

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

Inventories:

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

3. Deposits with Financial Institutions and the U.S. Treasury and Investments:

Cash and cash equivalents for the governmental funds, enterprise funds, fiduciary funds and component units totaled \$3,670,496,000, \$1,349,960,000, \$999,409,000, and \$126,692,000, respectively, as of June 30, 2005. Included as cash and cash equivalents for financial statement presentation were certain short-term investments which are included in Footnote 3.B. because they mature within 90 days of purchase. These cash and cash equivalents totaled \$3,670,496,000, \$480,629,000, \$842,389,000, and \$109,903,000 for the governmental funds, enterprise funds, fiduciary funds, and component units, respectively, as of June 30, 2005.

As of June 30, 2005, non-negotiable certificates of deposits totaling \$6,612,000 and \$4,311,000 were included in the investments of the governmental and enterprise funds, respectively.

A. Cash Deposits

As of June 30, 2005, the carrying value for the bank deposits of the governmental funds, enterprise funds, fiduciary funds, and component units were \$6,612,000, \$873,642,000, \$157,020,000 and \$16,789,000, respectively. The bank balances were \$6,612,000, \$873,751,000, \$157,020,000, and \$23,820,000, respectively. The balances for the component units do not include the balances for the higher education foundations in the amount of \$25,367,000, and they are not included in the GASB Statement No. 40 disclosure below. The foundations are not required to and do not follow governmental accounting under the GASB's standards.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State, unexpended or surplus money in which the Treasurer has custody if (a) the deposit is interest bearing; (b) the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance; and (c) a custodian holds the collateral.

The Economic Development Loan Programs, Maryland Transportation Authority, and State Retirement and Pension System do not have a deposit policy for custodial credit risk. As of June 30, 2005, \$433,000, \$255,000, and \$95,567,000, respectively, of their bank balances were exposed to custodial credit risk as uninsured and uncollateralized. The higher education component unit does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$679,000 of its bank balances were exposed to custodial credit risk as collateralized with securities held by the pledging financial institution's trust department or agent but not in the component unit's name and \$1,442,000 of its bank balances were exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments:

The State discloses investment risks, below, in accordance with GASB Statement No. 40, which defines these risks as follows:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

1. Investments-Governmental Funds:

The State Treasurer's Office is authorized to make investments as stated in Footnote 2.A.

Investments are stated at fair value that is based on quoted market prices. The investments and maturities as of June 30, 2005, for the governmental funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-3	More Than 3
U.S. Treasury bills and notes (a)	\$ 99,334	\$ 99,334		
U.S. agencies (b)	1,045,163	292,539 (c)	\$752,624 (d)	
Repurchase agreements	3,755,054	3,755,054		
Guaranteed investment contracts	2,890			\$2,890
Total investments	4,902,441	4,146,927	752,624	2,890
Collateral for lent securities	722,402	722,402		
Total investments and collateral for lent securities	\$5,624,843	\$4,869,329	\$752,624	\$2,890

(a) All investments are held by broker dealers under securities lending program.

(b) Investments held by broker dealers under securities lending program are \$258,861,000.

(c) Bonds in the amount of \$49,781,000 mature February, 2006 to April, 2006, but are callable July, 2005.

(d) Bonds in the amount of \$411,264,000 mature November, 2006 to March, 2008, but are callable July, 2005 to April, 2006.

In addition to the investments scheduled above, as of June 30, 2005, the governmental funds had investments of \$12,552,000 in money market mutual funds and \$159,587,000 in the Local Government Investment Pool. These investments are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. Their fair values are based on a share price of \$1.00 per share.

Interest Rate Risk. The State Treasurer's Office's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase. In addition, investments of the non-major governmental funds are subject to the provisions of the 2002 Qualified Zone Academy Bond covenant requiring that annual sinking fund deposits be made to redeem the bonds in 2016. These funds, totaling \$2,890,000, are invested in guaranteed investment contracts.

Credit Risk. State law requires that the governmental funds' repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments are made directly in U.S. agency obligations. These agency obligations are rated Aaa by Moody's and AAA by Standard and Poor's. State law also requires that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by these. The money market mutual funds are rated Aaa/AAA. The Local Government Investment Pool is rated AAAM by Standard & Poor's. The guaranteed investment contracts are collateralized by U.S. agency obligations. They are not required to be and are not rated.

Concentration of Credit Risk. The State Treasurer's Office's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5 percent of the governmental funds' investments are in the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These investments are 41.8% and 44.1% of the governmental funds' total investments, respectively.

2. Investments - Enterprise Funds:

The enterprise funds' bond indentures and investment policies, with the exception of the Economic Development Loan Programs, authorize the investment of assets related to the indentures and other funds in obligations in which the State Treasurer may invest. The Economic Development Loan Programs are authorized to invest in obligations of the U.S. Treasury, U.S. government agencies, obligations of U.S. political subdivisions, bankers' acceptances, commercial paper, repurchase agreements, guaranteed investment contracts, corporate debt securities and mutual funds.

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2005, for the enterprise funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less Than 1	1-5	More 6-10	11-15	Than 15
U.S. Treasury obligations (a)	\$ 537,016	\$ 25,338	\$ 361	\$16,272	\$ 53,905	\$441,140
U.S. Government agency obligations (b)	709,799	675,152 (c)	22,125		4,254	8,268
Repurchase agreements	101,231	6,687	28,676		42,989	22,879
Commercial paper	7,933	7,933				
Guaranteed investment contracts	19,485			19,485		
Total	\$1,375,464	\$715,110	\$51,162	\$35,757	\$101,148	\$472,287

(a) Investments held by broker dealers under securities lending program are \$806,000.

(b) Investments held by broker dealers under securities lending program are \$107,383,000.

(c) Bonds in the amount of \$32,813,000 mature November 2005 to January 2006, but are callable July 2005 to August 2005.

In addition to the investments scheduled above, as of June 30, 2005, the enterprise funds had investments of \$458,725,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The funds' fair values are based on a share price of \$1.00 per share. The enterprise funds' investments also include the fair value of corporate equity securities (\$890,000) and direct equity investments (\$42,350,000).

The State Lottery Agency, a major enterprise fund, invests in U.S. Treasury obligations and annuity contracts that provide for guaranteed payouts to jackpot prize winners and, therefore, have no interest rate risk to the Lottery. As of June 30, 2005, the fair value of these investments was \$259,389,000 and \$518,000, respectively. Of these investments, U.S. Treasury obligations held by broker dealers under the securities lending program were \$248,472,000.

Interest Rate Risk. The enterprise funds' policy for managing their exposure to fair value loss arising from increasing interest rates is to manage investment maturities so that they precede or coincide with the expected need for funds.

Credit Risk. The investment policies of the enterprise funds require that repurchase agreements are collateralized by U.S. Treasury and agency obligations. The policies also require that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by these. According to the indenture and investment policy of the Economic Development Loan Programs, investments must be rated no lower than the rating on the Loan Programs' bonds or F1/P1 for the issuer's short-term accounts or securities. The rating on the Loan Programs' bonds as of June 30, 2005, was Aa2 by Moody's and AA by Fitch. The guaranteed investment contracts are not required to be and are not rated.

As of June 30, 2005, the enterprise funds had the following investments and quality ratings (amounts expressed in thousands):

Investment Type	Fair Value	Quality Rating	Rating Organization	Percentage of Total Investments
U.S. Government agency obligations	\$709,799	AAA/Aaa	S&P/Moody's	33.2 %
Money market mutual funds	458,725	AAA/Aaa	S&P/Moody's	21.5
Repurchase agreements-underlying securities	101,231	AAA/Aaa	S&P/Moody's	4.7
Commercial paper	7,933	P-1	Moody's	0.4
Guaranteed investment contracts	19,485	Not rated		0.9
Total	\$1,297,173			60.7 %

Concentration of Credit Risk. The enterprise funds place no limit on the amount they may invest in any one issuer. More than 5% of the enterprise funds' investments are in obligations of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. These investments are 6.4%, 19.5%, and 7.0%, respectively of the enterprise funds' total investments.

3. Investments-Fiduciary Funds:

The Pension Trust Funds are authorized to make investments as stated in Footnote 2.A.

The Maryland Local Government Investment Pool is authorized by Article 95, Section 22G, of the Annotated Code of Maryland to invest in any instrument in which the State Treasurer may invest. Investments of the Pool are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.

The investments and maturities as of June 30, 2005, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	More 6-10	11-15
U.S. Treasury notes and bonds	\$ 1,623,956	\$ 38,459	\$ 740,418	\$ 622,716	\$ 222,363
U.S. Treasury strips	15,119				15,119
U.S. Government agency obligations	1,250,174	1,122,725	52,105	52,392	22,952
Repurchase agreements	486,803	486,803			
Bankers' acceptances	9,500	9,500			
Commercial paper	837,440	837,440			
Guaranteed investment contracts	504,310		504,310		
Corporate bonds	765,688	61,407	178,552	391,326	134,403
International bonds	85,079	3,454	29,585	5,260	46,780
Other government bonds	231,322	1,655	24,753	105,113	99,801
Mortgage-backed securities	1,751,919	7	3,014	9,423	1,739,475
Asset-backed securities	299,151	7,010	34,076	4,241	253,824
Bond mutual funds	5,169,133	801,986	239,115	3,901,333	226,699
Total	\$13,029,594	\$3,370,446	\$1,805,928	\$5,091,804	\$ 2,761,416

In addition to the investments scheduled above, as of June 30, 2005, the fiduciary funds had investments of \$173,784, 000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The fair value of the funds is based on a share price of \$1.00 per share. The fiduciary funds' investments also include the fair value of stock mutual funds (\$13,312,332,000), corporate equity securities (\$9,111,712,000), real estate (\$834,402,000), annuity contracts (\$155,671,000), insurance contracts (\$3,912,000), guaranteed investment contracts which do not include investments in bonds (\$5,523,000), private equity (\$161,978,000) and convertible bonds (\$1,473,000).

Interest Rate Risk. The State Retirement and Pension System (System) may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by the System's staff. Derivatives are used to improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. At times, the System invests in collateralized mortgage obligations, mortgage pass-through securities, interest-only securities, and principal-only securities. These securities are subject to changes in value due to changes in interest rates. The values of mortgage-backed securities are generally based on the future cash flows associated with the underlying pools of assets. Therefore, they are sensitive to prepayments by mortgagors which may result from a decline in interest rates. The System held \$393,308,000 in collateralized mortgage obligations and \$1,353,541,000 of mortgage pass-through securities as of June 30, 2005. Substantially all derivatives are recorded at fair value in the Statement of Net Assets.

The Plans invest in annuity contracts and insurance contracts that provide for guaranteed payouts to participants and, therefore, have no interest rate risk to the Plans. As of June 30, 2005, the fair value of these investments was \$155,671,000 and \$3,912,000, respectively.

The State Treasurer's Office manages the Local Government Investment Pool. The State Treasurer's investment policies state that no direct investment by the Pool may have a maturity date of more than 13 months after its acquisition.

Credit Risk. The investment policy of the System requires each fixed income investment manager to maintain a minimum average credit quality of "A" for the total account. The guaranteed investment contracts and the bond mutual funds of the Plans are not required to be and are not rated. The Local Government Investment Pool may invest in instruments rated only Tier 1 by at least one nationally recognized securities rating organization. As of June 30, 2005, the fiduciary funds' investments were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Percentage of Total Investments
U.S. Government agency obligations	\$1,208,804	AAA	3.1%
U.S. Government agency obligations	5,338	AA	0.0%
U.S. Government agency obligations	30,694	BB	0.1%
U.S. Government agency obligations	5,338	Unrated	0.0%
Repurchase agreements-underlying securities	486,752	AAA	1.3%
Money market mutual funds	108,758	AAA	0.3%
Money market mutual funds	46,578	A	0.1%
Money market mutual funds	18,448	Unrated	0.1%
Bankers' acceptances	9,500	AAA	0.0%
Commercial paper	266,772	AAA	0.7%
Commercial paper	408,768	A	1.0%
Commercial paper	161,900	Unrated	0.4%
Guaranteed investment contracts	504,310	Unrated	1.3%
Corporate bonds	29,841	AAA	0.1%
Corporate bonds	18,036	AA	0.1%
Corporate bonds	210,851	A	0.5%
Corporate bonds	8,853	BAA	0.0%
Corporate bonds	83,947	B	0.2%
Corporate bonds	162,975	BB	0.4%
Corporate bonds	224,951	BBB	0.6%
Corporate bonds	23,610	CAA	0.1%
Corporate bonds	2,624	CA	0.0%
International bonds	20,547	AAA	0.1%
International bonds	7,063	AA	0.0%
International bonds	4,816	B	0.0%
International bonds	6,100	BB	0.0%
International bonds	5,137	BBB	0.0%
International bonds	41,416	Unrated	0.1%
Other government bonds	36,644	AAA	0.1%
Other government bonds	17,344	AA	0.0%
Other government bonds	14,421	A	0.0%
Other government bonds	4,486	BAA	0.0%
Other government bonds	1,923	B	0.0%
Other government bonds	62,168	BB	0.2%
Other government bonds	89,410	BBB	0.2%
Other government bonds	4,926	Unrated	0.0%
Collateralized mortgage obligations	381,646	AAA	1.0%
Collateralized mortgage obligations	2,245	A	0.0%
Collateralized mortgage obligations	10,583	Not rated	0.0%
Convertible bonds	589	B	0.0%
Convertible bonds	884	BB	0.0%
Mortgage pass-through securities	1,343,331	AAA	3.4%
Mortgage pass-through securities	14,114	Not rated	0.0%
Asset-backed securities-other	199,967	AAA	0.5%
Asset-backed securities-other	18,877	A	0.1%
Asset-backed securities-other	640	B	0.0%
Asset-backed securities-other	79,667	BBB	0.2%
Bond mutual funds	5,169,134	Not rated	13.2%
Total	\$ 11,565,726		29.5%

Foreign Currency Risk. The majority of the System's foreign currency-denominated investments are in equities, which the System's asset allocation policy limits to 15%.

The System's exposure to foreign currency risk as of June 30, 2005, is as follows (amounts expressed in thousands).

Investment	Currency	Maturity	Fair Value
Cash	Australian dollar	Not applicable	\$ 2,901
Common stock	Australian dollar	Not applicable	114,615
Cash	Canadian dollar	Not applicable	337
Corporate bond	Canadian dollar	6/1/2006	3,454
Common stock	Canadian dollar	Not applicable	66,249
Cash	Danish krone	Not applicable	16,972
Common stock	Danish krone	Not applicable	39,970
Cash	Euro currency	Not applicable	9,228
Common stock	Euro currency	Not applicable	1,123,831
Private equity	Euro currency	Not applicable	7,370
Kingdom of Spain	Euro currency	07/30/32	5,078
Republic of France	Euro currency	04/25/35	21,446
Federal Republic of Germany	Euro currency	01/04/31	12,615
Cash	Hong Kong dollar	Not applicable	617
Common stock	Hong Kong dollar	Not applicable	111,572
Cash	Indonesian rupiah	Not applicable	52
Common stock	Indonesian rupiah	Not applicable	12,002
Cash	Japanese yen	Not applicable	9,119
Common stock	Japanese yen	Not applicable	682,948
European Investment Bank	Japanese yen	09/20/06	2,788
Republic of Italy	Japanese yen	03/27/08	3,135
Republic of Italy	Japanese yen	10/10/06	3,992
Common stock	Malaysian ringgit	Not applicable	5,736
Cash	Mexican peso	Not applicable	230
Common stock	Mexican peso	Not applicable	16,083
United Mexican States	Mexican peso	12/19/13	5,260
Cash	New Taiwan dollar	Not applicable	6,212
Common stock	New Taiwan dollar	Not applicable	15,473
Common stock	New Turkish lira	Not applicable	1,309
Cash	New Zealand dollar	Not applicable	2,075
Common stock	New Zealand dollar	Not applicable	4,559
Cash	Norwegian krone	Not applicable	328
Common stock	Norwegian krone	Not applicable	26,506
Cash	Pound sterling	Not applicable	8,424
Common stock	Pound sterling	Not applicable	657,700
Private equity	Pound sterling	Not applicable	705
State of Israel	Pound sterling	05/31/10	19,670
Cash	Singapore dollar	Not applicable	162
Common stock	Singapore dollar	Not applicable	43,722
Common stock	South African rand	Not applicable	31,505
Cash	South Korean won	Not applicable	124
Common stock	South Korean won	Not applicable	63,810
Cash	Swedish krone	Not applicable	576
Common stock	Swedish krone	Not applicable	101,297
Cash	Swiss franc	Not applicable	371
Common stock	Swiss franc	Not applicable	279,098
Common stock	Thailand baht	Not applicable	744
Mutual funds	Not applicable	Not applicable	1,454,268
Total			<u>\$4,996,238</u>

4. Investments - Component Units:

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments and are invested in accordance with the investment policies adopted by the Board of Trustees. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, asset-backed securities and mutual funds that invest in government securities. The investments of the higher education foundations are not included in the GASB Statement No. 40 disclosures below because the foundations are not required to and do not follow the GASB.

The Maryland Stadium Authority is restricted by the trust indenture for each bond issue as to the investments which can be made. Authorized investments under the indentures include U.S. Treasury and agency obligations, municipal obligations, banker's acceptances, and repurchase agreements.

Investments of the component units are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2005, for the component units, excluding the investments of the higher education foundations in the amount of \$641,372,000, are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less Than 1	1-5	More 6-10	11-15	Than 15
U.S. Treasury obligations	\$ 18,244		\$11,562	\$ 3,691		\$ 2,991
U.S. Government agency obligations	57,515	\$ 252	13,775	6,595	\$ 6,712	30,181
Repurchase agreements	12,762	12,762				
Corporate debt securities	63,448	5,479	20,936	14,885	2,591	19,557
Municipal bonds	4,884	15	571	1,344	1,300	1,654
Mortgage-backed securities	2,339		820	68		1,451
Asset backed securities	3,202		587		1,051	1,564
Total	\$162,394	\$18,508	\$48,251	\$26,583	\$11,654	\$57,398

In addition to the investments scheduled above, as of June 30, 2005, the component units had investments of \$142,255,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The funds' fair values are based on a share price of \$1.00 per share. In addition, as of June 30, 2005, the component units' investments include the fair value of stock mutual funds (\$140,798,000), corporate equity securities (\$223,247,000), U.S. Government agency obligations whose maturities could not be determined (\$52,143,000), corporate debt securities whose maturities could not be determined (\$133,000), and real estate (\$1,371,000).

Interest Rate Risk. The policy of the higher education institutions for managing their exposure to fair value loss arising from increasing interest rates is to comply with their investment policy, which sets maximum maturities for various fixed income securities.

The higher education institutions invested \$5,541,000 of their endowment funds in various forms of asset-backed and mortgage-backed securities, primarily collateralized mortgage obligations and mortgage pass-through securities. The values of these securities are generally based on the future cash flows associated with the underlying pools of assets. Therefore, they are sensitive to prepayments by mortgagors, which may result from a decline in interest rates.

Credit Risk. The policies of the higher education institutions for reducing their exposure to credit risk are to require minimum quality ratings for fixed income securities. Money market mutual funds are not required to be and are not rated.

As of June 30, 2005, the component units had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Rating Organization	Percentage of Total Investments
U.S. agencies	\$109,658	AAA/Aaa	S&P & Moody's	15.2%
Money market mutual funds	11,192	Aaa	Moody's	1.5%
Money market mutual funds	131,063	Not rated		18.1%
Repurchase agreements - underlying securities	12,762	Not rated		1.8%
Corporate debt securities	11,066	AAA/Aaa	S&P & Moody's	1.5%
Corporate debt securities	4,283	AA/Aa	S&P & Moody's	0.6%
Corporate debt securities	17,753	A	S&P & Moody's	2.5%
Corporate debt securities	15,299	Less than A	Moody's	2.1%
Corporate debt securities	6,428	BBB/Baa	S&P Moody's	0.9%
Corporate debt securities	373	B	Moody's	0.1%
Corporate debt securities	36	Caa	Moody's	0.0%
Corporate debt securities	8,342	Not rated		1.2%
Municipal bonds	4,884	Aaa	Moody's	0.7%
Collateralized mortgage obligations	2,272	Aaa	Moody's	0.3%
Collateralized mortgage obligations	68	Not rated		0.0%
Asset-backed securities	3,202	Aaa	Moody's	0.4%
Total	\$338,681			46.9%

Concentration of Credit Risk. The component units place no limit on the amount they may invest in any one issuer. More than 5% of the component units' investments are in obligations of the Federal National Mortgage Association. These investments are 6.5% of the component units' total investments.

C. Securities Lending Transactions:

1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent.

Securities on loan at year-end are owned by the General Fund, the Maryland State Lottery Agency, and the Economic Development Loan Programs and are included in the preceding Investments schedule in Footnote 3.B. At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2005, the fair value of the loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Lent Securities	Collateral Received	
Securities-General Fund	\$358,425	\$360,785	100.7%
Securities-Lottery Agency	248,472	252,515	101.6
Securities-Economic Development Loan Programs	108,189	109,102	100.8

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. Investments made with cash received as collateral are included in the preceding Investments-Governmental Funds schedule in Footnote 3.B.1.

The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2005.

2. Fiduciary Funds:

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. The preceding Investments – Fiduciary Funds schedule in Footnote 3.B.3 includes (1) securities lent at year-end for cash collateral; (2) securities lent for securities collateral; and (3) investments purchased with cash collateral.

Borrowing brokers must transfer in the form of cash or other securities, collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or interest rate risk on securities lending activity since inception of the program. As of June 30, 2005, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities, as follows (amounts expressed in thousands).

Securities Lent	Fair Value	Cash Collateral	Percent Collateralized
		Received or Non-Cash Collateral Value	
Lent for cash collateral:			
Fixed income securities	\$1,238,122	\$1,252,805	101.2%
Domestic equities	568,366	584,181	102.8%
International equities	616,699	648,409	105.1%
Subtotal	2,423,187	2,485,395	
Lent for noncash collateral:			
Fixed income securities	55,743	56,967	102.2%
Total securities lent	\$2,478,930	\$2,542,362	

Although the average term of the Funds' security loans is one week, each loan can be terminated at will by either the Funds or the borrower. Cash collateral is invested in one of the lending agent's short-term investment pools, which as of June 30, 2005, had a weighted average maturity of 25 days and an average expected maturity of 174 days. Because the relationship between the maturities of the investment pools and the Fund's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults.

4. Receivables:

Taxes receivable, as of June 30, 2005, consist of the following (amounts expressed in thousands).

	Major Governmental Funds		Non-Major Governmental Funds
	General	Special Revenue	
Income taxes	\$349,736		
Sales and use taxes	328,770		
Transportation taxes, principally motor vehicle fuel and excise .		\$87,975	
Other taxes, principally alcohol and property	25,309		\$ 7,225
Less: allowance for uncollectibles	(14,250)		
Taxes receivable, net	\$689,565	\$87,975	\$ 7,225

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period are \$3,981,000.

Other accounts receivable in the governmental funds of \$667,923,000, including \$152,719,000 due in excess of one year, consist of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, Medicaid reimbursements, and child support and public assistance overpayments and surcharges.

Other accounts receivable for the enterprise funds of \$191,465,000, primarily consist of \$136,234,000 due to the Maryland Unemployment Trust Fund from employers and for benefit overpayments, and \$21,083,000, due to the Maryland State Lottery Agency for lottery ticket sale proceeds.

Other accounts receivable in the agency funds of \$1,372,945,000 represent cash pooled in the State treasury that is being held pending distribution to local governments.

5. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds, and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned
Tax receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	\$108,895	
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	202,474	
Other receivables for revenues not considered available to liquidate liabilities of the current period (special revenue fund)	16,191	
Other receivables for revenues not considered available to liquidate liabilities of the current period (other governmental funds)	119	
Income tax and other receipts that have been received, but not earned (general fund)		\$11,938
Revenue in connection with resources that have been received, but not earned (special revenue fund)		442
Revenue in connection with resources that have been received, but not earned (enterprise funds)		12,541
Total deferred/unearned revenue for governmental funds and enterprise funds	\$327,679	\$24,921

6. Loans and Notes Receivable and Investment in Direct Financing Leases:

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2005, consist of the following (amounts expressed in thousands).

	Primary Government				Component Units	
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority
Notes receivable:						
Political subdivisions:						
Water quality projects			\$ 5,137	\$ 604,337		
Construction		\$8,721				
Other			42			
Hospitals and nursing homes . . .			4,401			
Permanent mortgage loans				1,895,844		
Student and health profession loans . . .					\$77,476	
Shore erosion loans			7,399			
Other	\$1,143				13,299	\$4,888
Total	1,143	8,721	16,979	2,500,181	90,775	4,888
Less: Allowance for possible loan losses.				188,483	10,241	
Loans and notes receivable, net . . .	1,143	8,721	16,979	2,311,698	80,534	4,888
Due within one year	225	2,899	2,822	94,503	13,898	325
Due in more than one year	\$ 918	\$5,822	\$14,157	\$2,217,195	\$66,636	\$4,563

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 3.3% to 8.8% and mature in not more than 28 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' Federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

B. Investment in Direct Financing Leases:

Enterprise Funds:

As of June 30, 2005, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation and Washington Metropolitan Area Transit Authority (WMATA). The present value of the direct financing leases as of June 30, 2005 was \$456,193,000. As of June 30, 2005, the Authority held \$45,182,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2006	\$ 34,124
2007	35,506
2008	44,548
2009	44,797
2010	44,996
2011-2015	216,584
2016-2020	166,146
2021-2025	152,274
2026-2030	89,817
2031-2035	26,418
Total	855,210
Less: Unearned interest income	353,835
Net lease payments	501,375
Restricted investments related to unexpended bond proceeds	45,182
Net investments in direct financing leases	\$456,193

Component Units:

As of June 30, 2005, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2005, is \$295,053,000. As of June 30, 2005, the Authority held \$14,142,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2006	\$ 31,713
2007	31,725
2008	31,888
2009	31,327
2010	31,388
2011-2015	157,080
2016-2020	123,632
2021-2025	47,379
2026-2030	6,422
Total	492,554
Less: Unearned interest income	183,359
Net lease payments	309,195
Restricted investments related to unexpended bond proceeds	14,142
Net investments in direct financing leases	\$295,053

7. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2005, are as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
\$30,049	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements.
1,456	Represents cash and cash equivalents restricted for debt service payments according to bond agreements.
1,790	Represents funds transmitted to bond paying agents and restricted for payments for coupons and bonds that have not been presented.
2,891	Represents sinking fund deposits restricted for redemption of term bonds.
7,399	Consists of Shore Erosion Control Program loans, the repayments of which are restricted by statute for future loans.
Business-type Activities:	
\$2,439,899	Assets of the Community Development Administration and the State Funded Loan Programs are restricted for various mortgage loans for low-income housing and local governments' public facilities.
155,580	The purpose of the restricted assets is to secure the loans and revenue bonds of the Maryland Water Quality Administration made for waste-water treatment systems, drinking systems and secured deposits.
860,138	Restricted assets represent deposits with the U.S. Treasury to pay unemployment compensation benefits in accordance with Federal statute.
259,907	This cash is held in separate annuity contracts and coupon bonds in the Maryland State Lottery Agency for winning lottery ticket payouts.
294,992	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects, facility operations, and debt service.
Component Units:	
\$168,439	Restricted assets of higher education include funds held by the trustee for future construction projects, cash restricted for endowment purposes, and assets associated with student loans and loan repayments.
14,217	Restricted assets of Maryland Stadium Authority include cash and cash equivalents and investments that relate to revenue bond indentures.
24,239	Restricted assets include investments that relate to revenue bond indentures and to restricted project advances for the provision of water supply and waste-water treatment by the Maryland Environmental Service.

8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2005, consist of the following (amount expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 15,568 (a)
	Enterprise Funds -	
	Economic Development Loan Programs	398 (b)
	Maryland State Lottery Agency	38,307 (a)
		<u>\$ 54,273</u>
Special Revenue Fund	General Fund	<u>\$ 199,084</u>
	Maryland Transportation Authority	10,289 (c)
		<u>\$ 209,373</u>
Non-major Governmental Funds	General Fund	<u>\$ 137,092</u>
Enterprise Funds -		
Economic Development Loan Programs	General Fund	\$ 155,267
Maryland State Lottery Agency	General Fund	63,762
Maryland Transportation Authority	Special Revenue Fund	9,888 (d)
Non-major Enterprise Funds	General Fund	111,673
		<u>\$ 340,590</u>

The receivable and payable transactions between the Primary Government and Component Units, as of June 30, 2005, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Component Units -	
	Maryland Stadium Authority	<u>\$ 540 (a)</u>
Components Units -		
Higher Education Fund	General Fund	\$ 715,673
Maryland Stadium Authority	General Fund	4,799
Non-major Component Units	General Fund	39,115
		<u>\$ 759,587</u>

- (a) The amounts represent monies collected by the special revenue fund, the Maryland State Lottery and the Maryland Stadium Authority in June, 2005, and paid to the general fund in July, 2005.
- (b) The amounts represent short term advances from the general fund for principal and interest payments, which should not be occurring in the future.
- (c) The Maryland Transportation Authority collects fees for the special revenue fund. The money will be used to build and maintain special revenue fund infrastructure, structures and other improvements.
- (d) The Maryland Transportation Authority lent funds to the Special Revenue Fund for a construction project at the Seagirt Marine Terminal. The balance outstanding as of June 30, 2005, was \$9,888,000. Payments will continue for 33 years after completion of the project.

All remaining amounts which are due from the general fund represent pooled cash belonging to the other funds on deposit with the State Treasurer.

All interfund balances except for (d), above, are expected to be repaid by June 30, 2006.

9. Interfund Transfers:

Interfund transfers, for the year ended June 30, 2005, consist of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	\$177,385
	Non-major Governmental Funds	3,402
	Enterprise Funds -	
	Maryland State Lottery Agency	477,098
	Economic Development Loan Programs	4,775
	Non-major Enterprise Funds	2,000
		<u>\$664,660</u>
Special Revenue Fund	General Fund	<u>\$233,781</u>
Non-major Governmental Funds	General Fund	\$ 11,115
	Special Revenue Fund	153,973
		<u>\$165,088</u>
Enterprise Funds -		
Loan Programs	General Fund	\$ 30,631
	Non-major Governmental Funds	32,422
		<u>\$ 63,053</u>

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred \$2,070,000 of interest earned on bonds, \$14,000 return of funds for rescinded pay-as-you-go capital projects, and \$712,000 of Shore Erosion loan funds to the general fund. The general fund transferred \$102,000 for redemptions and interest on state bonds, \$7,363,000 for program open space capital projects, and \$3,650,000 for other capital projects, primarily public school construction, to the non-major governmental funds.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of \$477,098,000, to the general fund. The general fund transferred \$30,631,000 to support the operations of Enterprise Funds – Loan Programs and the Enterprise Funds – Loan Programs transferred \$4,775,000 of unused funds to the general fund. Also, expenditures for capital projects of \$32,422,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of \$856,971,000, and \$180,949,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had net expenditures of \$19,702,000 that were for funds provided to supplement revenues of the Maryland Stadium Authority.

10. Capital Assets:

A. Capital Assets, Primary Government:

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2005, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Balance June 30, 2004	Additions	Deletions	Transfers In (Out)	Balance June 30, 2005
Capital assets, not being depreciated,					
Land and improvements	\$ 2,416,770	\$ 73,207	\$ 526	\$ 5,605	\$ 2,495,056
Art and historical treasures	27,043	75			27,118
Construction in progress	2,447,265	1,051,383	427	(745,149)	2,753,072
Total capital assets, not being depreciated	4,891,078	1,124,665	953	(739,544)	5,275,246
Capital assets, being depreciated,					
Structures and improvements	4,667,826	42,985	10,814	255,344	4,955,341
Equipment	1,995,245	75,947	19,059	103,664	2,155,797
Infrastructure	12,740,628	321,317	916	380,536	13,441,565
Total capital assets, being depreciated	19,403,699	440,249	30,789	739,544	20,552,703
Less accumulated depreciation for,					
Structures and improvements	1,580,911	125,210	7,049		1,699,072
Equipment	1,200,411	156,132	16,175		1,340,368
Infrastructure	5,454,269	523,967	64		5,978,172
Total accumulated depreciation	8,235,591	805,309	23,288		9,017,612
Total capital assets, net	\$16,059,186	\$ 759,605	\$ 8,454	\$	\$16,810,337

Business-type activities:

Classification	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets, not being depreciated,				
Land and improvements	\$ 108,278	\$1,730		\$ 110,008
Capital assets, being depreciated,				
Structures and improvements	50,711	73		50,784
Equipment	35,186	2,165	\$ 523	36,828
Infrastructure	2,204,355	80,157	31	2,284,481
Total capital assets, being depreciated ..	2,290,252	82,395	554	2,372,093
Less accumulated depreciation for,				
Structures and improvements	799	21,098		21,897
Equipment	22,664	2,461	268	24,857
Infrastructure	903,890	32,901	24	936,767
Total accumulated depreciation	927,353	56,460	292	983,521
Total capital assets, net	\$ 1,471,177	\$27,665	\$ 262	\$ 1,498,580

B. Depreciation Expense, Primary Government:

The depreciation expense for the year ended June 30, 2005, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	\$ 32,289
Education	12,239
Judiciary	2,395
Business and economic development	13
Labor, licensing and regulation	560
Human resources	11,870
Health and mental hygiene	17,313
Environment	745
Transportation	663,520
Public safety	40,463
Housing and community development	1,294
Natural resources and recreation	15,280
Agriculture	7,328
Total depreciation expense – governmental activities	\$805,309

Business-type activities:

Function	Amount
State Lottery	\$ 1,500
Transportation Authority	54,094
State Use Industries	855
Economic Development Loan Programs	11
Total depreciation expense – business type activities	\$ 56,460

11. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long-term debt, for the year ended June 30, 2005, are as follows (amounts expressed in thousands).

	Balance June 30, 2004	Additions	Reduction	Balance June 30, 2005	Amounts Due Within One Year
Bonds and Notes Payable:					
General obligation bonds	\$4,102,278	\$1,639,884	\$1,230,335	\$4,511,827	\$393,355
Transportation bonds	1,188,090		116,470	1,071,620	92,280
Deferred amounts:					
Issuance premiums	278,511	153,438	35,375	396,574	
On refunding	(32,688)	(58,436)	(11,291)	(79,833)	
Total bonds and notes payable	5,536,191	1,734,886	1,370,889	5,900,188	485,635
Other Liabilities:					
Compensated absences	236,873	146,339	138,245	244,967	129,527
Self insurance costs	270,400	816,026	795,993	290,433	114,411
Escheat property	49,157	61,787	46,573	64,371	39,800
Net pension obligation	141,196	138,422		279,618	
Obligations under capital leases	345,028	140,829	45,621	440,236	38,997
Obligations under capital leases with component units	303,901	13,604	13,285	304,220	14,360
Other long-term liabilities	415,813	24,951	16,241	424,523	22,511
Total other liabilities	1,762,368	1,341,958	1,055,958	2,048,368	359,606
Total long-term liabilities- governmental activities	\$7,298,559	\$3,076,844	\$2,426,847	\$7,948,556	\$845,241

General Obligation Bonds -

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, author-

izes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans authorized by particular enabling acts. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2005. Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund and capital projects fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2005, the State issued \$1,639,884,000 of general obligations at a premium of \$153,438,000 with related issuance costs of \$3,075,000. The bonds included \$775,000,000 to be used to fund capital improvements, in addition to the refunding and Qualified Zone Academy Bonds described below.

General obligation bonds of \$855,840,000 were issued during fiscal year 2005 to refund certain outstanding general obligation bonds issued between 1994 and 2000. From the refunding bonds and related premium of \$85,967,000, \$940,591,000 was transferred to an escrow account and used to purchase state and local government securities. These securities will be used to secure the principal, call premium, and interest related to the refunded bonds. The interest rates on the refunded bonds range from 4.5% to 5.8%. The purpose of the refundings was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is \$34,721,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is \$35,527,000.

On November 30, 2004, the State sold \$9,043,000 general obligation, Qualified Zone Academy Bonds at par and with related issuance costs of \$33,000. The bonds pay no interest and were only available for purchase by insurance companies and certain other financial institutions. The purchaser receives Federal tax credits each year the bonds are outstanding. The bonds mature on November 30, 2019. Annually for 15 years, starting November 15, 2005, the State will purchase a \$490,000 guaranteed investment contract (GIC) from the purchaser of the bonds. The GIC's will earn interest at a 2.9% guaranteed rate. In 2019 the investments will be redeemed, and the proceeds will be used to liquidate the bonds.

Refunded bonds of \$854,030,000 (all refunded during the year ended June 30, 2005) maturing in fiscal years 2006 -2016 and callable in fiscal years 2006-2011 were considered defeased as of June 30, 2005. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2005, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
6/3/93(a)	1994-2006	4.5-5.1	\$ 147,740	\$ 20,796
10/21/93(a)	1995-2007	3.0-4.8	143,145	20,900
3/3/94	1997-2009	3.5-4.8	119,965	21,140
10/26/95	1998-2010	4.5-5.1	150,000	11,905
2/29/96	1999-2011	4.0-4.9	170,000	13,375
6/20/96	1999-2011	5.0-5.3	150,000	11,920
10/24/96	2000-2012	5.0	170,000	26,360
3/13/97	2000-2012	5.0	240,000	37,220
8/14/97	2001-2013	4.8-5.0	250,000	77,645
3/5/98	2001-2013	4.5-5.0	250,000	77,645
7/22/98	2002-2014	5.0-5.3	250,000	94,800
3/11/99	2002-2014	4.0-4.5	225,000	125,315
7/29/99	2003-2015	4.3-5.3	125,000	55,885
8/3/00	2004-2016	5.1-5.8	200,000	100,925
3/8/01	2004-2016	4.0-5.5	200,000	177,190
7/26/01	2005-2017	5.0-5.5	200,000	188,710
11/21/01	2016	0 (b)	18,098	18,098
3/21/02(a)	2003-2017	4.0-5.5	309,935	262,955
8/15/02(a)	2003-2018	3.0-5.5	515,830	443,445
3/6/03(a)	2006-2018	5.0-5.3	586,120	586,120
8/5/03	2007-2019	5.0	500,000	500,000
8/10/04	2008-2020	5.0	400,000	400,000
10/21/04 (a)	2005-2016	5.0	574,655	574,250
11/30/04	2020	0 (b)	9,043	9,043
3/17/05 (a)	2006-2020	3.4-5.3	656,185	656,185
			<u>\$6,560,716</u>	<u>\$4,511,827</u>

(a) Includes refunding debt

(b) Qualified Zone Academy Bonds are non-interest bearing.

General obligation bonds authorized, but unissued, as of June 30, 2005, total \$1,835,488,000.

As of June 30, 2005, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2006	\$ 393,355	\$ 220,248
2007	405,696	203,744
2008	428,310	184,607
2009	416,375	162,827
2010	393,340	142,187
2011-2015	1,585,315	435,449
2016-2020	889,436	95,050
Total	<u>\$4,511,827</u>	<u>\$1,444,112</u>

On August 11, 2005, general obligation bonds aggregating \$450,000,000 were issued for capital improvements. The interest rates on the new issue range from 4.0% to 5.0%, and the bonds mature serially through 2020.

Transportation Bonds -

Transportation bonds outstanding as of June 30, 2005, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds – 3.3% to 5.0%, due serially through 2019	\$837,000
Consolidated Transportation Bonds, Refunding – 4.0% to 5.5%, due serially through 2014.	232,945
County Transportation Bonds -- 6.2%, due serially through 2006	1,675
Total	<u>\$1,071,620</u>

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport, rail, or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year, that does not exceed \$2,000,000,000 through June 30, 2005, and thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2005, was \$1,472,000,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2005, was \$1,069,945,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department, and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for Federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues. Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department. On December 1, 2004, the Department issued \$30,000,000 of 15 year, 3.7% County Transportation Revenue Bonds for Baltimore City. As of June 30, 2005, the principal balance outstanding for County Transportation Revenue Bonds for which the Department is not liable totaled \$31,775,000. These bonds do not constitute a debt or pledge of the faith and credit of the Department or the State and, accordingly, have not been reported in the accompanying financial statements.

Arbitrage regulations are applicable to the transportation bonds payable. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2005.

Refunded bonds of \$46,500,000 were considered defeased as of June 30, 2005. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2005, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30	Consolidated and County Transportation Bonds	
	Principal	Interest
2006	\$ 92,280	\$49,780
2007	68,290	46,531
2008	68,990	43,569
2009	74,210	40,708
2010	73,595	37,398
2011-2015	385,355	135,069
2016-2019	308,900	33,960
Total	<u>\$1,071,620</u>	<u>\$387,015</u>

Obligations Under Capital Leases -

Obligations under capital leases as of June 30, 2005, bore interest at annual rates ranging from 2.0% to 5.9%. Capital lease obligations with third parties in fiscal year 2005 increased by \$140,829,000 for master equipment and building leases entered into by the general fund and leases for various transportation related projects entered into by the Maryland Department of Transportation. The capital leases with component units include the general fund's capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and with other non-major component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2005 (amounts expressed in thousands).

Years Ending June 30	Capital Lease Obligations with	
	Third Parties	Component Units
2006	\$ 61,198	\$ 33,904
2007	52,571	33,814
2008	49,599	33,943
2009	46,574	33,391
2010	39,481	33,439
2011-2015	165,594	163,573
2016-2020	132,031	124,491
2021-2025	99,521	47,379
2026-2030	<u>79,574</u>	<u>6,422</u>
Total future minimum payments.	726,143	510,356
Less: Amount representing interest	256,643	187,061
Less: Restricted cash and investments	<u>29,264</u>	<u>19,075</u>
Present value of net minimum payments.	<u>\$440,236</u>	<u>\$304,220</u>

The reduction shown for restricted cash and investments in the amount of \$48,339,000 are monies held by the bond trustee to be used primarily for construction expenditures, including \$29,264,000 held on behalf of the Maryland Economic Development Corporation.

The assets acquired through capital leases are as follows (amounts expressed in thousands).

Asset	Third Parties Amount
Construction in progress	\$115,968
Land and improvements	10,677
Buildings and improvements	380,186
Machinery and equipment	236,129
Infrastructure	<u>12,912</u>
Total acquired assets	755,872
Less: accumulated depreciation	<u>197,496</u>
Total capital assets-net	<u>\$558,376</u>

Other Liabilities -

The Maryland Department of Transportation has entered into several financing agreements, primarily with the Maryland Transportation Authority, for the financing of various transportation related projects, similar in nature to capital leases. The Department has obligations under other long-term liabilities of \$409,587,000 as of June 30, 2005, bearing interest at annual rates ranging from 1.0% to 6.6%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2005 (amounts expressed in thousands).

Years Ending June 30,	Other Liabilities
2006	\$ 29,530
2007	30,913
2008	39,953
2009	40,200
2010	40,400
2011-2015	193,611
2016-2020	143,173
2021-2025	137,666
2026-2030	81,054
2031-2035	26,418
Total future minimum payments	762,918
Less: Amount representing interest	318,343
Less: Restricted cash and investments	34,988
Present value of net minimum payments	\$409,587

The reduction shown for restricted cash and investments in the amount of \$34,988,000 is monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used primarily for construction expenditures.

The assets acquired through other long-term liabilities are as follows (amounts expressed in thousands).

Asset	Amount
Construction in progress	\$ 95,860
Buildings and improvements	278,505
Machinery and equipment	325
Infrastructure	100,226
Total acquired assets	474,916
Less: accumulated depreciation	7,608
Total capital assets – net	\$467,308

For the governmental activities, compensated absences, self insurance, escheat property claim payments, net pension obligations, obligations under capital leases and other liabilities are generally liquidated by the general or special revenue fund as applicable.

B. Long Term Obligations – Business-type Activities:

Changes in long-term obligations for business-type activities as of June 30, 2005, are as follows (amounts expressed in thousands).

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable	\$2,935,711	\$559,152	\$669,548	\$2,825,315	\$317,999
Other Liabilities:					
Lottery prizes	259,497	18,271	48,564	229,204	43,978
Escrow deposits	39,315	5,639	7,555	37,399	11,281
Rebate liability	17,452	7,166	6,468	18,150	3,403
Compensated absences	7,656	5,410	4,846	8,220	1,956
Self insurance costs	6,378	2,241	1,503	7,116	1,103
Obligations under capital leases	3,132		1,459	1,673	461
Total other liabilities	333,430	38,727	70,395	301,762	62,182
Total long-term liabilities- business type activities ...	\$3,269,141	\$597,879	\$739,943	\$3,127,077	\$380,181

Debt service requirements for business-type activities' notes payable and revenue bonds to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 280,570	\$ 87,389	\$ 9,349	\$ 4,035	\$ 28,080	\$ 34,230
2007	57,210	81,865	9,989	3,817	34,420	32,845
2008	60,125	79,399	10,396	3,480	27,127	30,952
2009	63,955	76,794	10,521	3,126	27,601	30,305
2010	62,150	73,960	10,794	2,634	28,288	29,468
2011-2015	321,830	325,848	34,499	6,526	161,425	131,841
2016-2020	287,390	247,281	2,625	79	117,856	97,603
2021-2025	253,915	177,816			130,380	66,648
2026-2030	204,485	117,522			103,760	30,638
2031-2035	119,350	71,454			63,220	7,557
2036-2040	187,535	34,954				
2041-2045	68,425	11,193				
2046-2050	8,710	448				
Total	1,975,650	1,385,923	88,173	23,697	722,157	492,087
Discounts, premiums and other deferred costs	(2,067)					
Accumulated accreted interest					41,402	
Total	\$1,973,583	\$1,385,923	\$88,173	\$23,697	\$763,559	\$492,087

Community Development Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$2,444,813,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 1.2 % to 6.8%, with the bonds maturing serially through June, 2047. The principal amount outstanding as of June 30, 2005, is \$1,973,583,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 102% of the outstanding principal amount. During fiscal year 2005, the Administration issued \$393,145,000 of revenue bonds with interest rates ranging from 1.7% to 5.3% and maturing serially through June, 2047.

The Administration issues short-term tax-exempt bonds to preserve its allocation of the state volume ceiling until the issuance of long-term bonds to finance mortgages. In fiscal year 2005, the Administration issued Series 2004, Series J and Series 2004, Series K, which are still outstanding as of June 30, 2005. Series 2003, Series D and Series 2003, Series E were issued in fiscal year 2004 and either were redeemed prior to maturity or matured in fiscal year 2005.

The short-term debt that was issued in fiscal year 2005 was in the Residential Revenue Bond Program Fund.

The following summarizes short-term debt activity in 2005 (amounts expressed in thousands).

Outstanding short-term debt as of June 30, 2004	\$220,310
Issuance	170,055
Retirements	(220,310)
Outstanding short-term debt as of June 30, 2005	\$170,055

This amount of short-term debt is included in the restricted revenue bonds payable on the Statement of Net Assets.

Subsequent to June 30, 2005, the Administration redeemed a total of \$69,720,000, of revenue bonds.

Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Environment, has issued revenue bonds for providing loans. Interest rates range from 4.8% to 7.1% with principal of \$76,508,000 due serially from September 1, 2005 to September 1, 2014, and term bonds with an aggregate principal of \$11,665,000 due from September 1, 2013 to 2015. These bonds are payable solely from the revenue, money or property of the Administration. The bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at premiums ranging up to 2.5% of the outstanding principal amount.

On July 28, 2005, the Administration issued \$63,560,000 to refund certain outstanding revenue bonds issued between 1992 and 1995 with interest rates ranging from 4.8% to 6.6%, in order to realize savings on debt service costs. The interest rate on the new issue is 3.3% and the bonds mature serially through 2015. The net present value savings realized was \$5,459,000.

Maryland Transportation Authority Bonds:

Bonds outstanding as of June 30, 2005, are as follows (amounts expressed in thousands).

Series 1992 Revenue bonds, current interest serial bonds, maturing in annual installments from \$13,970 to \$14,570 from July 1, 2005, to July 1, 2006, with interest rates ranging from 5.7% to 5.8%, payable semiannually	\$ 28,360
Series 1992 Capital appreciation revenue bonds maturing in annual installments of original principal and an accreted amount ranging from \$721 to \$6,857 from July 1, 2005, to July 1, 2015, with approximate yield to maturity of 6.0% to 6.4%	75,439
Series 1998 Revenue refunding bonds maturing in annual installments ranging from \$220 to \$9,510 from July 1, 2005 to July 1, 2006, with interest rates ranging from 4.4% to 5.0%, payable semiannually	15,185
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002a, maturing in annual installments ranging from \$1,690 to \$8,505 from July 1, 2005, to July 1, 2032, with interest rates ranging from 2.8% to 6.7%, payable semiannually	115,115
BWI Parking Garage Revenue Bonds, Series 2002b, maturing in annual installments ranging from \$5,885 to \$17,470 from March 1, 2006, to March 1, 2027, with interest rates ranging from 4.0% to 5.3%, payable semiannually	259,760
BWI Facilities Projects Bonds, Series 2003, maturing in annual installments ranging from \$8,800 to \$11,200 from March 1, 2008, to March 1, 2014, with interest rates ranging from 2.2% to 2.3%, payable semiannually..	69,700
WMATA Metrorail Parking Projects Bonds, Series 2004, maturing in annual installments ranging from \$1,040 to \$2,780 from March 1, 2006, to March 1, 2028, with interest rates ranging from 3.0% to 5.0%, payable semiannually	40,000
Series 2004 Revenue bonds maturing in annual installments of \$1,000 to \$15,235 from July 1, 2005 to July 1, 2006, with interest rates ranging from 4.5% to 5.0% payable semiannually, and term bonds maturing July 1, 2034, with an interest rate of 5.0%	160,000
Total	\$763,559

Revenue bonds are payable solely from the revenues of the transportation facilities projects. The Series 1992 Revenue Bonds are subject to redemption at the Authority's option on or after July 1, 2005, at a redemption price of 100% of the principal amount.

Capital appreciation bonds payable as of June 30, 2005, include an accreted amount of \$41,402,000.

Obligations Under Capital Leases -

Obligations of business-type activities under capital leases as of June 30, 2005, are as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2006	\$ 461
2007	440
2008	439
2009	439
Total minimum lease payments	1,779
Less: Imputed interest	106
Present value of net minimum lease payments	\$1,673

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2005, assets acquired under leases and the related accumulated amortization totaled \$3,378,000 and \$2,000,000, respectively, and are included in capital assets in the Statement of Net Assets, Business-type Activities.

C. Notes and Revenue Bonds Payable - Component Units:

Higher Education -

Certain State higher education institutions have issued revenue bonds for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. Interest rates range from 1.7% to 6.1% on the revenue bonds. In August 2003, the University System of Maryland (System) issued equipment notes payable with interest calculated using rates of interest determined through a periodic auction process. The notes mature on July 1, 2023 and may be converted to fixed interest rate instruments at the option of the System.

Debt service requirements to maturity, excluding debt of the foundations in the amount of \$1,698,000, are as follows (amounts expressed in thousands).

Years Ending June 30,	Notes Payable and Other Long-Term Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 2,718	\$ 4,857	\$ 57,551	\$ 47,190
2007	1,992	4,733	61,495	44,177
2008	2,117	4,641	64,065	41,488
2009	2,264	4,540	66,599	38,718
2010	2,398	4,432	64,518	35,848
2011-2015	13,192	20,292	275,170	134,721
2016-2020	2,870	18,173	250,780	69,753
2021-2025	67,156	10,797	121,880	19,138
2026-2030			16,130	4,112
2031-2034			8,835	639
Total	94,707	72,465	987,023	435,784
Accumulated accreted interest and other deferred costs			28,457	
Total	\$94,707	\$72,465	\$1,015,480	\$435,784

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

As of June 30, 2005, Morgan State University has \$9,263,000 of defeased debt outstanding, resulting from the refunding of the 1990 Revenue Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2005, investments were held by the trustee for St. Mary's College in the amount of \$1,355,000, and restricted investments were held for Morgan State University in the amount of \$15,195,000.

On April 20, 2005, St. Mary's College issued \$19,105,000 of 2005 Subordinate Revenue Bonds, Series A. Proceeds of the bonds will be used to refinance the 1997 Series A and the 2000 Series A bonds. The Subordinate Revenue Bonds, Series A, bear interest from 3.3% to 5.0%. Annual maturities will increase from 2006 until the final payment of \$4,480,000 becomes due in 2030. The bonds maturing after September 1, 2015 are callable at a premium of 1%. The total difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was \$1,208,000. The economic gain on the transaction is \$691,000.

As of June 30, 2005, the System had \$1,088,249,000 of defeased debt outstanding resulting from the refunding of previously issued debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2005, cash and cash equivalents in the amount of \$48,313,000 were held by the trustee for the System as unexpended proceeds of the Revenue Bonds and the Revolving Loan Program Bonds.

On February 24, 2005, the System issued \$174,910,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, 2005 Series A & B. The 2005 Series A & B bonds consist of serial bonds maturing through the year ended 2021 with stated rates of interest from 4.0% to 5.0% and were issued at a net premium of \$12,752,000. Proceeds of the 2005 Series A & B bonds will be used to advance refund \$128,570,000 of outstanding principal of previously issued debt and to fund property acquisition, new construction and renovation projects. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is \$9,670,000. The economic gain on the transaction is \$8,055,000.

Obligations under capital leases of \$7,082,000 exist as of June 30, 2005, bearing interest at annual rates ranging from 4.8% to 6.8%.

Maryland Stadium Authority (Authority) - Revenue Bonds:

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2006	\$ 12,915	\$ 18,798
2007	13,940	17,785
2008	14,925	16,963
2009	15,210	16,117
2010	16,195	15,193
2011-2015	97,360	59,721
2016-2020	93,510	30,122
2021-2025	39,070	8,309
2026-2028	6,070	352
Total	<u>309,195</u>	<u>183,360</u>
Unamortized discount net of unamortized premium	(8)	
Total	<u>\$309,187</u>	<u>\$183,360</u>

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, convention center expansions in Baltimore City and the Town of Ocean City and certain other facilities. The outstanding debt is to be repaid through capital lease payments from the State, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 2005, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium	\$130,715	3.0% to 5.7%	December 15, 2019
Football Stadium	78,875	4.7% to 5.8%	March 1, 2026
Baltimore City			
Convention Center.	37,025	5.3% to 5.9%	December 15, 2014
Ocean City Convention Center	12,347	4.8% to 5.4%	December 15, 2015
Hippodrome Performing Arts Center ..	19,123	5.0% to 6.3%	June 15, 2022
Montgomery County			
Conference Center	22,372	2.0% to 5.0%	June 15, 2024
Camden Station	8,730	3.0% to 5.2%	December 15, 2024
Total	<u>\$309,187</u>		

12. Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Non-incremental claims adjustment expenses have been included as part of the liability for claims and adjustments for the general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4.0% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the following fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2005 were as follows (amounts expressed in thousands).

	Balance June 30, 2004	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2005	Amount Due Within One Year
Property, casualty and general liability . . .	\$ 18,581	\$ 7,642	\$ 9,569	\$ 16,654	\$ 5,887
Workers' compensation	221,767	53,566	44,969	230,364	35,708
Employee health benefits	66,428	759,178	747,395	78,211	78,211
Total self-insurance costs	\$306,776	\$820,386	\$801,933	\$325,229	\$119,806

As of June 30, 2005, the Program held \$107,704,000, in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2004 were as follows (amounts expressed in thousands).

	Balance June 30, 2003	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2004	Amount Due Within One Year
Property, casualty and general liability . . .	\$ 16,314	\$ 13,582	\$ 11,315	\$ 18,581	\$ 6,224
Workers' compensation	211,517	53,968	43,718	221,767	34,374
Employee health benefits	67,076	672,100	672,748	66,428	66,428
Total self-insurance costs	\$294,907	\$739,650	\$727,781	\$306,776	\$107,026

As of June 30, 2004 the Program held \$102,401,000, in cash and investments designated for payments of these claims.

13. Fund Equity:

The unrestricted deficit for governmental activities on the government-wide statement of net assets is \$1,296,225,000. This occurs because the State incurs debt for the purposes of capital acquisition and construction on behalf of local governments and private organizations. Since the incurrence of this debt does not result in capital assets of the State, the debt is not reflected in the net asset category, invested in capital assets, net of related debt, but rather in the unrestricted net assets category. As of June 30, 2005, the State has reported outstanding general obligation bonds and capital leases applicable to these non-State projects of \$3,105,649,000. Without State financing for these capital assets, the State would have reported positive unrestricted net assets of governmental activities in the amount of \$1,809,424,000.

A portion of the general fund's fund balance, in the amount of \$540,110,000 as of June 30, 2005, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of the Economic Development Opportunities Program Account, Catastrophic Event Account, Revenue Stabilization Account and Joseph Fund Account with balances as of June 30, 2005, of \$11,629,000, \$7,110,000, \$521,358,000, and \$13,000, respectively. The Economic Development Opportunities Program Account is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Account is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases. The purpose of the Joseph Fund Account is to set aside reserves in time of economic prosperity to meet the emerging needs of economically disadvantaged citizens of the State.

In addition, a portion of the general fund's fund balance, in the amount of \$414,773,000, representing restricted revenue carry forwards, has been reserved. The largest restricted revenue carry forwards are related to health and mental hygiene programs, \$239,249,000; natural resources and recreation programs, \$43,097,000; judicial programs, \$50,786,000; environmental programs, \$30,574,000; and public safety programs, \$16,591,000. Such amounts are reserved because the use of the funds is legally restricted for a specific purpose.

A portion of the other governmental funds' fund balance is reserved for sinking fund deposits of \$2,916,000, set aside to redeem the 2002 Qualified Zone Academy Bonds due in 2016. A portion of the general fund unreserved fund balance is designated for fiscal year 2006 appropriations in the amount of \$776,867,000. Portions of the other governmental funds' unreserved fund balance are designated for payment of the debt service on General Obligation and Department of Transportation long-term debt in the amounts of \$114,077,000 and \$1,756,000, respectively. The undesignated deficit fund balance in other governmental funds of \$181,489,000 results from the reservation for encumbrances of \$373,598,000 for future construction projects in the capital projects fund.

14. Segment Information:

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding; housing loans of the Community Development Administration and water quality loans of the Maryland Water Quality Administration.

The Community Development Administration (CDA) has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. The bond indentures require the CDA to separately account for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater and drinking water projects. These bonds are payable solely from, and secured by, the revenue, money or property of the Maryland Water Quality Administration. The bond indentures require separate accounting for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

Summary financial information for the two loan programs is presented below.

Condensed Statement of Net Assets		
As of June 30, 2005		
(Expressed in Thousands)		
	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets	\$ 576,689	\$ 30,949
Non-current restricted assets	1,862,575	124,631
Total assets	2,439,264	155,580
Liabilities:		
Due to other funds	398	
Current liabilities	350,978	10,713
Non-current liabilities	1,729,992	80,641
Total liabilities	2,081,368	91,354
Net Assets:		
Restricted	357,896	64,226
Total net assets	\$ 357,896	\$ 64,226

Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
for the year ended, June 30, 2005		
(Expressed in Thousands)		
	Community Development Administration	Maryland Water Quality Administration
Operating income (expenses):		
Interest on loan income	\$ 85,094	\$ 5,264
Interest and other investment income	65,059	1,185
Interest expense	(99,237)	(5,571)
Other operating revenues	4,725	
Other operating expenses	(16,998)	(51)
Operating Income	38,643	827
Non-operating revenues (expenses)	(629)	(5,480)
Change in net assets	38,014	(4,653)
Beginning net assets	319,882	68,879
Ending net assets	\$357,896	\$64,226

Condensed Statement of Cash Flows		
for the year ended, June 30, 2005		
(Expressed in Thousands)		
	Community Development Administration	Maryland Water Quality Administration
Net cash provided (used) by:		
Operating activities	\$ 197,663	\$ 18,924
Non-capital financing activities	(343,140)	(19,833)
Investing activities	181,796	944
Beginning cash and cash equivalents	230,340	12
Ending cash and cash equivalents	\$ 266,659	\$ 47

15. Retirement Benefits:

State Retirement and Pension System of Maryland (System):

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 135 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than

from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202.

Plan Description:

The System, which is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the System. All State employees and employees of participating entities are covered by the plans.

"Retirement System" - retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" - retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completion of 5 years of service. A member terminating employment before attaining retirement age, but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with full benefits after attaining the age 62, or after completing 30 years of Service Credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. Legislation enacted during the 1998 legislative session changed certain provisions of the Pension Systems and provided for a contributory pension system and a non-contributory pension system. A member of the contributory pension system will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three consecutive year average salary multiplied by the number of years of service credit after July 1, 1998. The annual benefit for a non-contributory pension system member is equal to 0.8% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member of either type of pension system may retire with reduced benefits after attaining age 55 and completing 15 years of service.

The annual retirement allowance for a State Police member is equal to 2.55% of the member's highest three-year average salary multiplied by each year of service up to a maximum of 28 years. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average salary multiplied by each year of service up to a maximum of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement.

Funding Policy:

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages, 7.0% or 5.0% depending on the retirement plan selected. Members of the contributory pension system are required to contribute to the System 2.0% of their regular salaries and wages. Members of the non-contributory pension system are required to contribute to the System 5.0% of their regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 7% of earnable compensation, except that any member who had previously elected the 5% contribution 5% COLA option shall continue to contribute 5% of earnable compensation. All contributions are deducted from each member's salary, and wage payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. Effective July 1, 2002, State law provides that the contribution rates may be more or less than the actuarially determined rates for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. Contributions to these Systems are based on the Corridor Funding Method which establishes a budgetary contribution rate. During fiscal year 2005, the State paid \$603,940,000, of the required contribution totaling \$742,362,000, which was 7.8% of covered payroll and 81% of the required payment. The difference represents an additional pension cost liability in the government-wide statement of net assets. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll.

Annual Pension Cost and Net Pension Obligation:

The annual pension cost and net pension obligation as of June 30, 2005, are as follows (amounts expressed in thousands).

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System
Annual required contribution . . .	\$457,354	\$244,791	\$158	\$12,484	\$24,276
Interest on net pension obligation	4,581	6,361			
Actuarial adjustment to annual required contribution	(3,200)	(4,443)			
Annual pension cost	458,735	246,709	158	12,484	24,276
Contributions made	438,454	128,568	158	12,484	24,276
Increase (decrease) in net pension obligation	20,281	118,141			
Net pension obligation, beginning of year	59,113	82,083			
Net pension obligation, end of year	\$ 79,394	\$200,224	\$ -	\$ -	\$ -

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ended June 30,		
	2005	2004	2003
Teachers' Retirement and Pension System	\$438,454	\$417,971	\$388,220
Employees' Retirement and Pension System	128,568	125,714	125,311
State Police Retirement System	158	5,827	4,850
Judges' Retirement System	12,484	14,673	14,851
Law Enforcement Officers Pension System	24,276	22,178	23,394

Plan	Percentage of Annual Pension Cost Contributed Fiscal Year Ended June 30,		
	2005	2004	2003
Teachers' Retirement and Pension System	96%	93%	94%
Employees' Retirement and Pension System	53	73	79
State Police Retirement System	100	100	100
Judges' Retirement System	100	100	100
Law Enforcement Officers Pension System	100	100	100

Plan	Net Pension Obligation Fiscal Year Ended June 30,		
	2005	2004	2003
Teachers' Retirement and Pension System	\$ 79,394	\$59,113	\$24,704
Employees' Retirement and Pension System	200,224	82,083	33,889
State Police Retirement System	---	---	---
Judges' Retirement System	---	---	---
Law Enforcement Officers Pension System	---	---	---

The fiscal year 2005 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2005. The fiscal year 2005 annual pension cost was determined as a part of an actuarial valuation as of June 30, 2003. The significant actuarial assumptions listed below were used for all plans.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing (difference in experienced and assumed return)
Rate of return on investments	7.75%
Rate of salary increase	Varies
Projected inflation rate	3.0%; general wage inflation is 4% which includes the 3.0% inflation assumption.
Post retirement benefit increase	Varies
Amortization method	Level Percent of Payroll
Remaining amortization period	15 years as of June 30, 2005 for prior UAAL
New layer as of June 30, 2001	21 years as of June 30, 2005 for new UAAL
New layer as of June 30, 2002	22 years as of June 30, 2005 for new UAAL
New layer as of June 30, 2003	23 years as of June 30, 2005 for new UAAL
New layer as of June 30, 2004	24 years as of June 30, 2005 for new UAAL
New layer as of June 30, 2005	25 years as of June 30, 2005 for new UAAL
Status of period (Open or Closed)	Closed

Maryland Transit Administration Pension Plan (Plan):

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 2005, the Administration's covered and total payroll was \$121,415,000. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan.

Plan Description:

The Plan provides retirement, normal and early, death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2005, membership in the Plan includes 1,191 retirees and beneficiaries currently receiving benefits, 442 terminated members entitled to, but not yet receiving, benefits and 2,641 current active members. There were no investments in, loans to, or leases with parties related to the Plan. There were no Plan investments representing 5 percent or more of total Plan assets.

Funding Policy:

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$19,695,000 (16.2% of covered payroll) for fiscal year 2005 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2004. This amount consisted of \$3,621,000 normal cost and \$16,074,000 amortization of the actuarial accrued liability (3.0% and 13.2%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities, as provided by law, is 14 years from June 30, 2005.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations. The computation of the annual required contribution for fiscal year 2005 was based on the same actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension costs for the fiscal years ending June 30, 2005, 2004, and 2003 were \$19,695,000, \$19,187,000 and \$16,545,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ended June 30, 2005, 2004 and 2003 for the Plan. Accordingly, the Administration's net pension obligation was zero as of June 30, 2005, 2004 and 2003 for the Plan.

The fiscal year 2005 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2005. The fiscal year 2005 annual pension cost was determined as a part of an actuarial valuation as of June 30, 2004. The significant actuarial assumptions listed below were used for the Plan.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing
Rate of return on investments	8.0% Compounded per Annum
Projected inflation rate	5.0%
Rate of salary increase	3.0% Compounded per Annum
Postretirement benefit increase	3.0% of original benefit amount
Amortization method	Level dollar annual installments
Remaining amortization period	14 years from June 30, 2005 for prior UAAL
New amortization period	22 years from June 30, 2005 for new UAAL
Status of period (Open or Closed)	Closed

During fiscal year 2005, there were no changes in actuarial assumptions or benefit provisions from 2004 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term. Effective July 1, 2002, the Administration implemented two changes to the funding procedures: an increase in the asset smoothing factor from three to five years and an increase in the amortization period for funding future gains and losses to a 25 year period for each year's gain or loss.

Post Retirement Benefits:

The State also provides, in accordance with State Merit System Laws, post employment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 85% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post employment health care benefits, which is based on health care insurance charges for current employees. During fiscal year 2005, the benefits paid amounted to \$145,919,000. Costs are recognized as they are paid. There are 33,641 participants currently receiving benefits. See Footnote 1 concerning implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.

Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. For State fiscal years 2000 and 2001 the maximum amount contributed to this plan for each participant was \$600. The \$600 maximum contribution for each participant was reduced to \$500 for state fiscal year 2002. The Governor proposed and the State Legislature approved the elimination of the State's matching contribution to the Plan for each participant for the fiscal years beginning July 1, 2003 and July 1, 2004. The matching state contribution was reinstated for a maximum of \$400 for the fiscal year beginning July 1, 2005. An employees interest in his/her account is fully vested at all times. The match program continues to be established and funded in statute.

16. Commitments:

The State's governmental funds lease office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2005 were approximately \$58,763,000. Future minimum rental payments for noncancelable leases of more than one year as of June 30, 2005, are as follows (amounts expressed in thousands).

Years ending June 30,	Amounts
2006.	\$57,744
2007.	52,844
2008.	46,605
2009.	38,943
2010.	31,970
2011-2015	58,443
2016-2020	13,711
2021-2025	13,453
2026-2030	13,453
2031-2035	897
Total	\$328,063

As of June 30, 2005, the governmental funds, other than the Department of Transportation, had commitments of approximately \$157,142,000 and \$8,273,000, for the completion of projects under construction and for service contracts, respectively.

As of June 30, 2005, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$2,632,233,000 and \$274,000,000, respectively, for construction of highway and mass transit facilities.

Approximately 32% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various cancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30,	Amounts
2006.....	\$137,567
2007.....	129,381
2008.....	115,131
2009.....	84,363
2010.....	72,548
2011 -2015.....	189,151
Total	<u>\$728,141</u>

The cost and accumulated depreciation of the assets as of June 30, 2005, are \$940,561,000 and \$248,235,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately \$113,032,000 for the year ended June 30, 2005.

As of June 30, 2005, the Maryland State Lottery Agency had commitments of approximately \$40,747,000, for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 2005, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of \$35,066,000 in additional loans, i.e., the Maryland Economic Development Assistance Authority Fund, \$23,256,000, Maryland Economic Development Opportunities Program Fund, \$11,000,000, and Maryland Economic Adjustment Fund, \$810,000. The State Funded Loan Programs and Maryland Water Quality Administration, enterprise fund loan programs, committed to provide \$54,041,000 and \$170,202,000 in loans, respectively. The Community Development Administration, also an enterprise fund loan program, has \$341,445,000 of revenue bonds outstanding that are not included in the financial statements of the Administration because the bonds are not guaranteed by the State or any other program of the State or any political subdivision. The revenue bonds are secured solely by the individual multi-family project properties, related revenues, applicable credit enhancements, or investments equal to the debt outstanding.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay \$2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. Payment for fiscal year 2005 was required and paid.

As of June 30, 2005, the higher education fund had commitments of approximately \$215,734,000 for the completion of projects under construction.

17. Contingencies:

The State is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2005, economic development loan programs were contingently liable to financial institutions for \$5,938,000 for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurers of \$373,193,000 of \$635,361,000 mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of \$38,499,000 of \$494,913,000 economic development and growth bonds issued by financial institutions.

As of June 30, 2005, there were approved economic development bonds pending settlement which were insured by non-major component units for \$15,596,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2005, the State estimates that no material liabilities will result from such audits.

18. Tobacco Settlement:

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that for each of fiscal years 2003 through 2006, at least 25% of the appropriations shall be made for the Maryland Medical Assistance Program (Medicaid); the 2005 legislative session increased that percentage to 30% for each year for which appropriations are made. During the 2003 legislative session, legislation was enacted requiring that .15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of \$118,601,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2005 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2005 was \$151,264,000, including the award from the arbitration panel for attorney fees. Pursuant to a settlement between the State and legal counsel resolving all disputes, \$30,000,000 was disbursed to legal counsel in fiscal year 2005.

It is estimated that the payments made to the State pursuant to the Master Settlement through fiscal year 2010 will total \$1.7 billion, of which \$149,873,000 will go to outside counsel. The actual amount paid each year, however, will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive \$51,919,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

19. Landfill Closure and Postclosure Care Costs:

State and Federal laws require the Maryland Environmental Service (the Service) to cover the Midshore Regional Landfill (Midshore), which the current cell is expected to close in January 2007, and to perform certain maintenance and monitoring functions at the Midshore and Easton Landfill (Easton) sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service reports a portion of these closure and postclosure care costs as a liability based upon the estimated useful life of the landfill. Midshore's current cells are approximately 85% filled as of June 30, 2005. Total closure and postclosure care costs for the landfill is currently estimated to be \$10,067,000, as determined through engineering studies and \$8,571,000 has been recognized as a liability in the June 30, 2005 Combining Statement of Net Assets, Non-Major Component Units. Actual costs may be subject to change due to inflation, deflation, technology, and changes in applicable laws and regulations.

A receivable from project participants corresponding to the accrued liability has also been recorded.

The Service will construct and bring on line by January 2008 an additional cell in order to extend the life of the landfill to December 2010. Closure and postclosure cost will be adjusted in the future to include this increase in capacity.

Under Federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2004. The Service expects to satisfy these requirements as of June 30, 2005, using the same criteria.



REQUIRED SUPPLEMENTARY INFORMATION

(Expressed in Thousands)

	General Fund				Special Fund				Federal Fund			
	Budget Amounts		Actual Amounts	Variance Positive (Negative)	Budget Amounts		Actual Amounts	Variance Positive (Negative)	Budget Amounts		Actual Amounts	Variance Positive (Negative)
	Original Budget	Final Budget			Original Budget	Final Budget			Original Budget	Final Budget		
Revenues:												
Income taxes	\$ 5,631,136	\$ 6,017,543	\$ 6,323,895	\$ 306,352	\$ 114,078	\$ 181,278	\$ 210,808	\$ 29,530				
Sales and use taxes	2,954,024	3,109,302	3,129,352	20,050	24,800	23,300	24,323	1,023				
Other taxes	828,295	885,269	902,448	17,179	2,163,531	2,243,887	2,404,471	160,584				
Licenses and fees	151,352	164,342	187,284	22,942	456,634	617,299	702,410	85,111				
Charges for services	266,353	282,118	287,762	5,644	700,699	971,571	863,783	(107,788)				
Interest and other investment income	48,022	50,846	82,891	32,045	7,739	8,449	20,120	11,671				
Other	515,928	613,760	718,906	105,146	622,692	532,165	336,162	(196,003)				
Federal revenue					31,140	10,278	14,123	3,845	\$5,689,469	\$6,251,842	\$5,692,911	\$(558,931)
Total revenues	10,395,110	11,123,180	11,632,538	509,358	4,121,313	4,588,227	4,576,200	(12,027)	5,689,469	6,251,842	5,692,911	(558,931)
Expenditures and encumbrances by major function:												
Payments of revenue to civil divisions of the State.	128,490	128,490	128,246	244	560,360	560,315	553,783	6,532				
Public debt												
Legislative	72,012	72,448	59,087	13,361	72,172	76,506	61,463	15,043	4,249	4,273	3,932	341
Judicial review and legal	374,436	382,344	366,798	15,546	150,657	187,056	122,897	64,159	182,405	241,580	147,989	93,591
Executive and administrative control	148,935	152,033	137,560	14,473	69,357	76,486	74,123	2,363				
Financial and revenue administration	159,015	163,992	159,709	4,283	15,882	30,063	26,094	3,969				
Budget and management	95,117	53,263	44,573	8,690	18,619	27,798	25,854	1,944				
Retirement and pension					1,772	1,819	1,250	569	801	801	801	
General services	53,420	54,003	50,322	3,681	2,464,168	2,733,815	2,543,502	190,313	735,817	932,675	823,186	109,489
Transportation and highways					117,253	122,501	78,807	43,694	33,459	35,261	23,417	11,844
Natural resources and recreation	72,066	72,865	70,153	2,712	39,974	53,386	21,920	31,466	8,483	10,424	4,466	5,958
Agriculture	27,999	28,284	25,810	2,474	256,456	285,434	246,045	39,389	2,630,713	2,742,480	2,678,343	64,137
Health, hospitals and mental hygiene	3,130,418	3,194,286	3,191,960	2,326	68,410	76,511	70,240	6,271	953,410	1,030,891	934,358	96,533
Human resources	568,888	568,673	561,614	7,059	22,597	24,709	17,460	7,249	137,631	142,931	130,619	12,312
Labor, licensing and regulation	19,670	19,956	18,594	1,362	126,933	139,978	131,275	8,703	7,723	12,541	9,635	2,906
Public safety and correctional services	795,195	823,906	816,668	7,238	52,001	53,616	37,232	16,384	995,575	1,071,592	798,676	272,916
Public education	5,072,350	5,087,644	5,008,054	79,590	79,365	88,827	55,354	33,473	204,827	207,069	185,000	22,069
Housing and community development	15,230	15,297	12,160	3,137	83,737	86,267	32,283	53,984	563	783	652	131
Business and economic development	72,402	72,590	60,832	11,758	83,737	86,267	32,283	53,984	99,796	108,702	66,116	42,586
Environment	47,106	47,441	38,814	8,627	245,118	277,718	92,824	184,894				
Juvenile services	172,004	178,171	177,759	412	248	8,248	8,123	125	15,358	16,858	15,925	933
State police	213,149	214,655	211,917	2,738	61,571	62,512	59,915	2,597	3,451	17,774	4,799	12,975
State reserve fund	106,653	114,653	114,653									
Reversions	(36,000)	(20,000)		(20,000)								
Total expenditures and encumbrances	11,308,555	11,424,994	11,255,283	169,711	4,506,650	4,973,565	4,260,444	713,121	6,014,261	6,576,635	5,827,914	748,721
Excess of revenues over (under) expenditures	(913,445)	(301,814)	377,255	679,069	(385,337)	(385,338)	315,756	701,094	(324,792)	(324,793)	(135,003)	189,790

STATE OF MARYLAND

**Reconciliation of the Budgetary General and Special Fund, Fund Balances
to the GAAP General and Special Revenue Fund, Fund Balances**

June 30, 2005

(Expressed in Thousands)

	<u>General</u>	<u>Special</u>
Amount in budgetary funds, fund balance (page 85)	\$1,872,213	\$1,304,977
Budgetary special funds reclassified to the general fund	584,918	(584,918)
Budgetary special funds reclassified to other funds		(429,954)
Other non-budgetary funds reclassified to governmental funds	40,888	3,020
Total of budgetary fund balances reclassified into the governmental funds' fund structure	2,498,019	293,125
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	59,708	109
Investments	(4,101)	
Taxes receivable	13,372	3,197
Intergovernmental receivables	14,602	
Other accounts receivable	225,377	2,981
Other assets	(126,424)	
Inventories	22,434	60,259
Due from component units	540	
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Accounts payable and accrued liabilities	7,995	(5,329)
Accounts payable to political subdivisions	(124,873)	(767)
Due to other funds	(6,878)	(9,989)
Deferred revenue	48,611	
Accrued self insurance costs	(6,425)	
Financial statement governmental funds' fund balances, June 30, 2005 (page 26)	\$2,621,957	\$ 343,586

See accompanying Notes to Required Supplementary Information.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for
Pension and Retirement System**
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll (1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll (2)
TEACHERS RETIREMENT AND PENSION SYSTEM						
2005	\$20,801,529	\$23,305,198	\$(2,503,669)	89.26%	\$4,867,396	(51.44)%
2004	20,155,415	21,724,178	(1,568,763)	92.78	4,543,444	(34.53)
2003	19,626,676	21,152,063	(1,525,387)	92.79	4,522,202	(33.73)
2002	19,424,000	21,117,046	(1,693,046)	91.98	4,323,053	(39.16)
2001	19,182,750	20,126,943	(944,193)	95.31	3,994,201	(23.64)
2000	18,419,539	18,994,294	(574,755)	96.97	3,729,845	(15.41)
EMPLOYEES RETIREMENT AND PENSION SYSTEM						
2005	\$11,855,673	\$13,671,756	\$(1,816,083)	86.72%	\$3,537,602	(51.34)%
2004	11,514,655	12,621,578	(1,106,923)	91.23	3,337,542	(33.17)
2003	11,244,008	12,083,197	(839,189)	93.05	3,424,054	(24.51)
2002	11,162,265	11,385,749	(223,484)	98.04	3,356,671	(6.66)
2001	11,021,958	10,789,907	232,051	102.15	3,084,859	7.52
2000	10,593,917	9,907,683	686,234	106.93	2,829,250	24.25
STATE POLICE RETIREMENT SYSTEM						
2005	\$ 1,289,345	\$ 1,284,950	\$ 4,395	100.34%	\$ 76,463	5.75 %
2004	1,287,981	1,200,605	87,376	107.28	76,445	114.30
2003	1,285,201	1,062,383	222,818	120.97	80,839	275.63
2002	1,300,402	1,030,575	269,827	126.18	83,142	324.54
2001	1,305,556	993,847	311,709	131.36	79,383	392.66
2000	1,269,418	911,273	358,145	139.30	79,388	451.13
JUDGES RETIREMENT SYSTEM						
2005	\$ 260,125	\$ 328,033	\$ (67,908)	79.30%	\$ 33,074	(205.32)%
2004	250,272	312,285	(62,013)	80.14	32,937	(188.28)
2003	240,207	279,008	(38,801)	86.09	33,167	(116.99)
2002	234,558	267,532	(32,974)	87.67	31,824	(103.61)
2001	229,022	254,913	(25,891)	89.84	30,554	(84.74)
2000	216,374	236,446	(20,072)	91.51	30,147	(66.58)
LAW ENFORCEMENT OFFICERS' PENSION SYSTEM						
2005	\$ 310,087	\$ 537,736	\$ (227,649)	57.67%	\$ 87,220	(261.01)%
2004	271,587	454,815	(183,228)	59.71	77,369	(236.82)
2003	225,111	382,287	(157,176)	58.89	69,470	(226.25)
2002	191,100	312,058	(120,958)	61.24	65,916	(183.50)
2001	165,678	290,504	(124,826)	57.03	60,438	(206.54)
2000	140,034	214,822	(74,788)	65.19	50,302	(148.68)
LOCAL FIRE AND POLICE SYSTEM						
2005	\$ 2,741	\$ 5,777	\$ (3,036)	47.45%	\$ 2,005	(151.42)%
2004	4,747	12,243	(7,496)	38.77	1,744	(429.82)
2003	10,262	15,663	(5,401)	65.52	4,686	(115.26)
2002	10,938	18,324	(7,386)	59.69	7,188	(102.75)
2001	9,814	13,828	(4,014)	70.97	5,601	(71.67)
2000	10,099	15,349	(5,250)	65.80	6,938	(75.67)
TOTAL OF ALL PLANS						
2005	\$34,519,500	\$39,133,450	\$(4,613,950)	88.21%	\$8,603,760	(53.63)%
2004	33,484,657	36,325,704	(2,841,047)	92.18	8,069,481	(35.21)
2003	32,631,465	34,974,601	(2,343,136)	93.30	8,134,418	(28.81)
2002	32,323,263	34,131,284	(1,808,021)	94.70	7,867,794	(22.98)
2001	31,914,778	32,469,942	(555,164)	98.29	7,255,036	(7.65)
2000	30,649,381	30,279,867	369,514	101.22	6,725,870	5.49

- (1) Covered payroll includes the payroll cost of those participants for which the State pays the retirement contribution but does not pay the participants' payroll cost. Starting with the year ending June 30, 2002, disclosure, the covered payroll has been restated to show actual salaries reported for valuation purposes, prior to any adjustments.
- (2) Percentage of (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for
Maryland Transit Administration Pension Plan**

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2005	\$101,810	\$261,536	\$159,726	38.9%	\$121,415	131.6%
2004	95,219	260,422	165,203	36.6	126,169	130.9
2003	86,642	234,460	147,818	37.0	128,393	115.1

STATE OF MARYLAND

Notes to Required Supplementary Information For the Year Ended June 30, 2005

1. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. The budgetary Federal fund revenue and expenditures are included in the GAAP General and Special Funds as federal revenues and expenditures by function. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2005, the General Assembly approved a net increase in General Fund appropriations of \$100,439,000. Appropriations for programs funded in whole or in part from the special or federal funds may permit expenditures in excess of original special or federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller, provides a more comprehensive accounting of activity on the basis of budgeting at the legal level of budgetary control.

The original and amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - for the year ended June 30, 2005. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2005, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances" immediately following the budgetary schedule.



COMBINING FINANCIAL STATEMENTS AND SCHEDULES

STATE OF MARYLAND

Non-Major Governmental Funds

Debt Service Funds

General Obligation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations are accounted for in the general obligation bonds debt service fund.

Transportation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on transportation long-term debt obligations are accounted for in the transportation bonds debt service fund.

Capital Projects Fund

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, Federal grants and operating transfers from the State's general fund. The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances.

STATE OF MARYLAND

Combining Balance Sheet
Non-major Governmental Funds
June 30, 2005
(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds	Bonds		Funds
Assets:				
Cash and cash equivalents	\$106,275			\$106,275
Cash and cash equivalents - restricted		\$1,456		1,456
Cash with fiscal agent - restricted	4,329	352		4,681
Taxes receivable, net	7,225			7,225
Other receivables	247		\$ 40	287
Due from other funds		300	136,792	137,092
Loans and notes receivable, net	9,580			9,580
Loans and notes receivable - restricted			7,399	7,399
Total assets	\$127,656	\$2,108	\$144,231	\$273,995
Liabilities:				
Vouchers payable			\$ 34,734	\$ 34,734
Accounts payable and accrued liabilities			13,348	13,348
Accounts payable to political subdivisions			12,474	12,474
Deferred revenue	\$ 119			119
Matured bonds and interest coupons payable	1,438	\$ 352		1,790
Total liabilities	1,557	352	60,556	62,465
Fund balances:				
Reserved for:				
Encumbrances			373,598	373,598
Loans and notes receivable	9,106		7,399	16,505
Debt service	2,916			2,916
Unreserved:				
Undesignated (deficit)	114,077	1,756	(297,322)	(181,489)
Total fund balances	126,099	1,756	83,675	211,530
Total liabilities and fund balances	\$127,656	\$2,108	\$144,231	\$273,995

STATE OF MARYLAND

**Combining Statement of Revenues
Expenditures, Other Sources and Uses of
Financial Resources and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)**

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds			Funds
Revenues:				
Other taxes	\$ 520,095			\$ 520,095
Interest and other investment income	1,155	\$ 179	\$ 2,377	3,711
Other	573			573
Total revenues	521,823	179	2,377	524,379
Expenditures:				
Education			136,558	136,558
Aid to higher education			217,077	217,077
Intergovernmental			173,031	173,031
Capital outlays			122,342	122,342
Debt service:				
Principal retirement	348,180	116,470		464,650
Interest	204,715	54,076		258,791
Bond issuance costs			2,503	2,503
Total expenditures	552,895	170,546	651,511	1,374,952
Deficiency of revenues under expenditures	(31,072)	(170,367)	(649,134)	(850,573)
Other sources (uses) of financial resources :				
Bonds issued			784,043	784,043
Refunding bonds issued	855,840			855,840
Bond premium	84,751		68,686	153,437
Payments to refunded bond escrow agent	(940,591)			(940,591)
Transfers in	89,138	153,973	11,013	254,124
Transfers out			(124,860)	(124,860)
Total other sources of financial resources	89,138	153,973	738,882	981,993
Net change in fund balances	58,066	(16,394)	89,748	131,420
Fund balances, June 30, 2004	68,033	18,150	(6,073)	80,110
Fund balances, June 30, 2005	\$ 126,099	\$ 1,756	\$ 83,675	\$ 211,530

STATE OF MARYLAND

Non-major Enterprise Funds

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The non-major enterprise funds consist of the economic development insurance programs of the Department of Housing and Community Development and State Use Industries, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Enterprise Funds

June 30, 2005

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Assets -			
Current assets:			
Cash and cash equivalents		\$ 10	\$ 10
Other accounts receivable		4,974	4,974
Due from other funds	\$103,064	8,609	111,673
Inventories		7,475	7,475
Loans and notes receivable, net	129		129
Other assets	1,381	211	1,592
Total current assets	104,574	21,279	125,853
Non-current assets:			
Investments	1,105		1,105
Loans and notes receivable, net	515		515
Other assets			
Capital assets, net of accumulated depreciation:			
Structures and improvements		443	443
Equipment		5,544	5,544
Infrastructure		96	96
Total non-current assets	1,620	6,083	7,703
Total assets	106,194	27,362	133,556
Liabilities -			
Current liabilities:			
Accounts payable and accrued liabilities	205	1,332	1,537
Accrued insurance on loan losses	11,251		11,251
Other liabilities	451	704	1,155
Deferred revenue	1,164		1,164
Total current liabilities	13,071	2,036	15,107
Non-current liabilities:			
Other liabilities	1,238	267	1,505
Total non-current liabilities	1,238	267	1,505
Total liabilities	14,309	2,303	16,612
Net Assets:			
Invested in capital assets, net of related debt		6,083	6,083
Restricted for insurance programs	98,289		98,289
Unrestricted (deficit)	(6,404)	18,976	12,572
Total net assets	\$ 91,885	\$25,059	\$116,944

STATE OF MARYLAND

**Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)**

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Operating revenues:			
Charges for services and sales	\$ 2,620	\$39,955	\$ 42,575
Interest on loan income	559		559
Other	13		13
Total operating revenues	3,192	39,955	43,147
Operating expenses:			
Cost of sales and services		31,689	31,689
General and administrative	3,150	5,150	8,300
Depreciation and amortization		1,098	1,098
Reduction in provision for insurance on loan losses	(3,282)		(3,282)
Total operating expenses	(132)	37,937	37,805
Operating income	3,324	2,018	5,342
Nonoperating revenues:			
Restricted investment income	2,200		2,200
Other		3	3
Total nonoperating revenues	2,200	3	2,203
Income before transfers	5,524	2,021	7,545
Transfers out		(2,000)	(2,000)
Change in net assets	5,524	21	5,545
Total net assets - beginning	86,361	25,038	111,399
Total net assets - ending	\$91,885	\$25,059	\$116,944

STATE OF MARYLAND

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Cash flows from operating activities:			
Receipts from customers	\$ 2,340	\$ 39,209	\$ 41,549
Payments to suppliers		(27,333)	(27,333)
Payments to employees	(2,606)	(11,255)	(13,861)
Other receipts (payments)	(1,934)	3,487	1,553
Net cash provided (used) by operating activities	(2,200)	4,108	1,908
Cash flows from noncapital financing activities:			
Transfers out		(2,000)	(2,000)
Net cash used by noncapital financing activities		(2,000)	(2,000)
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(2,108)	(2,108)
Net cash used in capital and related financing activities		(2,108)	(2,108)
Cash flows from investing activities:			
Interest on investments	2,200		2,200
Net cash provided by investing activities	2,200		2,200
Net change in cash and cash equivalents			
Balance - beginning of the year		10	10
Balance - end of the year	\$ -	\$ 10	\$ 10
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 3,324	\$ 2,018	\$ 5,342
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization		1,098	1,098
Effect of changes in assets and liabilities:			
Other accounts receivable		(747)	(747)
Due from other funds	(3,200)	3,487	287
Inventories		(1,276)	(1,276)
Loans and notes receivable	70		70
Other assets	1,467	12	1,479
Accounts payable and accrued liabilities	(81)	(371)	(452)
Accrued insurance on loan losses	(3,695)		(3,695)
Deferred revenue	(300)	(270)	(570)
Other liabilities	215	157	372
Net cash provided (used) by operating activities	\$(2,200)	\$ 4,108	\$ 1,908

STATE OF MARYLAND

Fiduciary Funds

The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Funds reflect the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and are accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefits Trust Funds

June 30, 2005

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan <u>December 31, 2004</u>	Total
Assets:				
Cash and cash equivalents	\$ 933,993	\$ 550	\$ 4,851	\$ 939,394
Investments:				
U.S. Treasury and agency obligations	656,739	5,113		661,852
Bonds	1,241,554	18,287		1,259,841
Corporate equity securities	7,850,285	65,786		7,916,071
Mortgage related securities	1,746,849	5,070		1,751,919
Mutual funds	17,176,324		1,305,141	18,481,465
Guaranteed investment contracts			509,833	509,833
Real estate	832,188	2,214		834,402
Annuity contracts			155,671	155,671
Private equity	161,978			161,978
Investment held by borrowers under securities lent with cash collateral	2,423,187			2,423,187
Total investments	32,089,104	96,470	1,970,645	34,156,219
Other receivables	383,058	1,392	11,592	396,042
Collateral for lent securities	2,485,395			2,485,395
Total assets	35,891,550	98,412	1,987,088	37,977,050
Liabilities:				
Accounts payable and accrued liabilities	1,332,436	1,392	83	1,333,911
Collateral obligation for lent securities	2,485,395			2,485,395
Total liabilities	3,817,831	1,392	83	3,819,306
Net assets:				
Held in trust for :				
Pension benefits	32,073,719	97,020		32,170,739
Deferred compensation benefits			1,987,005	1,987,005
Total net assets	\$32,073,719	\$97,020	\$1,987,005	\$34,157,744

STATE OF MARYLAND

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefits Trust Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2004	Total
Additions:				
Contributions:				
Employers	\$ 239,855	\$19,695		\$ 259,550
Members	208,997		\$ 142,556	351,553
Sponsors	430,699			430,699
Total contributions	879,551	19,695	142,556	1,041,802
Investment earnings:				
Net appreciation in fair value of investments	2,351,524	2,597	132,680	2,486,801
Interest	263,718	6,247	27,787	297,752
Dividends	221,500			221,500
Real estate operating net earnings	32,453			32,453
Net change in annuity reserves			4,998	4,998
Total investment income	2,869,195	8,844	165,465	3,043,504
Less investment expense	102,806			102,806
Net investment income	2,766,389	8,844	165,465	2,940,698
Total additions	3,645,940	28,539	308,021	3,982,500
Deductions:				
Benefit payments	1,697,397	17,264	112,953	1,827,614
Refunds	19,162			19,162
Administrative expenses	22,386	177	5,263	27,826
Total deductions	1,738,945	17,441	118,216	1,874,602
Change in net assets	1,906,995	11,098	189,805	2,107,898
Net assets held in trust for pension and other employee benefits:				
June 30, 2004	30,166,724	85,922	1,797,200	32,049,846
June 30, 2005	\$32,073,719	\$97,020	\$1,987,005	\$34,157,744

STATE OF MARYLAND

Combining Schedule of Fiduciary Net Assets
Retirement and Pension System of Maryland

June 30, 2005

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Assets:							
Cash and cash equivalents	\$ 547,617	\$ 317,372	\$ 11,404	\$ 44,764	\$ 612	\$ 12,224	\$ 933,993
Investments, at fair value	19,422,103	11,000,735	236,272	1,145,369	7,230	277,395	32,089,104
Other receivables	190,718	175,049	2,337	11,443	75	3,436	383,058
Collateral for lent securities	1,502,912	853,024	18,389	89,179	558	21,333	2,485,395
Total assets	21,663,350	12,346,180	268,402	1,290,755	8,475	314,388	35,891,550
Liabilities:							
Accounts payable and accrued liabilities	802,517	461,020	9,878	47,267	300	11,454	1,332,436
Collateral obligation for lent securities	1,502,912	853,024	18,389	89,179	558	21,333	2,485,395
Total liabilities	2,305,429	1,314,044	28,267	136,446	858	32,787	3,817,831
Net Assets:							
Held in trust for pension benefits	\$19,357,921	\$11,032,136	\$240,135	\$1,154,309	\$7,617	\$281,601	\$32,073,719

STATE OF MARYLAND

**Combining Schedule of Changes in Plan Net Assets
Retirement and Pension System of Maryland
For the Year Ended June 30, 2005**
(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Additions:							
Contributions:							
Employers	\$ 12,428	\$ 185,939	\$ 12,318	\$ 158	\$ 479	\$ 28,533	\$ 239,855
Members	116,432	81,482	1,457	6,342		3,284	208,997
Sponsors	426,025	4,508	166				430,699
Total contributions	554,885	271,929	13,941	6,500	479	31,817	879,551
Investment earnings:							
Net increase in fair value of investments	1,420,484	807,700	17,188	86,365	555	19,232	2,351,524
Interest	158,708	90,679	2,065	9,908	64	2,294	263,718
Dividends	133,818	76,058	1,615	8,144	55	1,810	221,500
Real estate operating net earnings	19,620	11,139	241	1,175	6	272	32,453
Total investment income	1,732,630	985,576	21,109	105,592	680	23,608	2,869,195
Less investment expense	61,943	35,575	743	3,669	21	855	102,806
Net investment income	1,670,687	950,001	20,366	101,923	659	22,753	2,766,389
Total additions	2,225,572	1,221,930	34,307	108,423	1,138	54,570	3,645,940
Deductions:							
Benefit payments	1,037,602	559,119	17,879	66,396	683	15,718	1,697,397
Refunds	5,693	13,104	2	291		72	19,162
Administrative expenses	11,416	10,601	26	138	9	196	22,386
Net transfers	237	2,793		(43)	(2,718)	(269)	
Total deductions	1,054,948	585,617	17,907	66,782	(2,026)	15,717	1,738,945
Change in net assets	1,170,624	636,313	16,400	41,641	3,164	38,853	1,906,995
Net assets held in trust for pension benefits:							
June 30, 2004	18,187,297	10,395,823	223,735	1,112,668	4,453	242,748	30,166,724
June 30, 2005	\$19,357,921	\$11,032,136	\$240,135	\$1,154,309	\$ 7,617	\$281,601	\$32,073,719

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2005

(Expressed in Thousands)

	Agency Funds				
	Local Income Taxes	Insurance Premium Taxes	Local Transportation Funds and Other Taxes	Litigant, Patient and Prisoner Accounts	Total Agency Funds
Assets:					
Cash and cash equivalents		\$ 10	\$ 2,776	\$57,229	\$ 60,015
Taxes receivable, net	\$ 176,594				176,594
Accounts receivable from state treasury	1,261,707	61,143	50,095		1,372,945
Other receivables		2,400			2,400
Total assets	<u>\$1,438,301</u>	<u>\$63,553</u>	<u>\$52,871</u>	<u>\$57,229</u>	<u>\$1,611,954</u>
Liabilities:					
Accounts payable to state treasury	\$ 103,127				\$ 103,127
Accounts payable and accrued liabilities		\$63,553	\$ 2,776	\$57,229	123,558
Accounts payable to political subdivisions	1,335,174		50,095		1,385,269
Total liabilities	<u>\$1,438,301</u>	<u>\$63,553</u>	<u>\$52,871</u>	<u>\$57,229</u>	<u>\$1,611,954</u>

STATE OF MARYLAND

**Combining Statement of Changes in Assets
and Liabilities - Agency Funds
For the Year Ended June 30, 2005
(Expressed in Thousands)**

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
<i>Litigant, Patient and Prisoner Accounts</i>				
Assets:				
Cash and cash equivalents	\$ 65,614	\$ 148,619	\$ 157,004	\$ 57,229
Liabilities:				
Accounts payable and accrued liabilities	\$ 65,614	\$ 148,619	\$ 157,004	\$ 57,229
<i>Insurance Premium Taxes</i>				
Assets:				
Cash and cash equivalents	\$ 10			\$ 10
Accounts receivable from state treasury	52,442	\$ 29,649	\$ 20,948	61,143
Other receivables	2,400			2,400
Total assets	\$ 54,852	\$ 29,649	\$ 20,948	\$ 63,553
Liabilities:				
Accounts payable and accrued liabilities	\$ 54,852	\$ 29,649	\$ 20,948	\$ 63,553
<i>Local Income Taxes</i>				
Assets:				
Taxes receivable	\$ 154,061	\$ 73,386	\$ 50,853	\$ 176,594
Accounts receivable from state treasury	1,236,723	3,603,048	3,578,064	1,261,707
Total assets	\$1,390,784	\$3,676,434	\$3,628,917	\$1,438,301
Liabilities:				
Accounts payable to state treasury	\$ 49,525	\$ 103,127	\$ 49,525	\$ 103,127
Accounts payable to political subdivisions	1,341,259	3,573,307	3,579,392	1,335,174
Total liabilities	\$1,390,784	\$3,676,434	\$3,628,917	\$1,438,301
<i>Local Transportation Funds and Other Taxes</i>				
Assets:				
Cash and cash equivalents	\$ 1,060	\$ 24,225	\$ 22,509	\$ 2,776
Accounts receivable from state treasury	17,722	128,994	96,621	50,095
Total assets	\$ 18,782	\$ 153,219	\$ 119,130	\$ 52,871
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,060	\$ 24,225	\$ 22,509	\$ 2,776
Accounts payable to political subdivisions	17,722	128,994	96,621	50,095
Total liabilities	\$ 18,782	\$ 153,219	\$ 119,130	\$ 52,871
<i>Payroll Taxes and Fringe Benefits</i>				
Assets:				
Accounts receivable from state treasury	\$ 1,159	\$1,135,491	\$1,136,650	\$ -
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,159	\$1,135,491	\$1,136,650	\$ -
<i>Totals - All Agency Funds</i>				
Assets:				
Cash and cash equivalents	\$ 66,684	\$ 172,844	\$ 179,513	\$ 60,015
Taxes receivable	154,061	73,386	50,853	176,594
Accounts receivable from state treasury	1,308,046	4,897,182	4,832,283	1,372,945
Other receivables	2,400			2,400
Total assets	\$1,531,191	\$5,143,412	\$5,062,649	\$1,611,954
Liabilities:				
Accounts payable to state treasury	\$ 49,525	\$ 103,127	\$ 49,525	\$ 103,127
Accounts payable and accrued liabilities	122,685	1,337,984	1,337,111	123,558
Accounts payable to political subdivisions	1,358,981	3,702,301	3,676,013	1,385,269
Total liabilities	\$1,531,191	\$5,143,412	\$5,062,649	\$1,611,954

STATE OF MARYLAND

COMPONENT UNIT FINANCIAL STATEMENTS

Non-Major Component Units

Non-major component units are comprised of the following proprietary fund type entities.

Maryland Prepaid College Trust

The Maryland Prepaid College Trust is directed by the Maryland Higher Education Investment Board to provide a method for Maryland citizens to save money for college tuition.

Maryland Environmental Service

The Maryland Environmental Service was created as a body corporate and politic. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

Maryland Industrial Development Financing Authority

The Maryland Industrial Development Financing Authority was established as a body corporate and politic and a public instrumentality of the State to provide financial assistance to enterprises seeking to locate or expand operations in Maryland.

Maryland Food Center Authority

The Maryland Food Center Authority is a body corporate and politic which was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Component Units

June 30, 2005

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total Non-major Component Units
Assets:					
Cash and cash equivalents	\$ 3,487	\$ 582		\$ 3	\$ 4,072
Investments	346,312	2,446			348,758
Tuition contracts receivable	181,570				181,570
Other accounts receivable	207	13,580		694	14,481
Due from primary government	12		\$37,164	1,939	39,115
Investments in direct financing leases ...		9,167			9,167
Other assets		12,280			12,280
Restricted assets:					
Investments		24,239			24,239
Capital assets, net of accumulated depreciation:					
Land		680		5,103	5,783
Structures and improvements		4,104		14,209	18,313
Infrastructure		1,398			1,398
Equipment	162	7,842		333	8,337
Construction in progress		1,599		692	2,291
Total assets	531,750	77,917	37,164	22,973	669,804
Liabilities:					
Accounts payable and accrued liabilities .	165	11,641		320	12,126
Loans from primary government	160				160
Unearned revenue			96	273	369
Accrued insurance on loan losses			4,744		4,744
Other liabilities	45			234	279
Bonds and notes payable:					
Due within one year		2,990			2,990
Due in more than one year		22,442			22,442
Other noncurrent liabilities:					
Due within one year	15,877	8,739			24,616
Due in more than one year	541,889	25,698		140	567,727
Total liabilities	558,136	71,510	4,840	967	635,453
Net Assets:					
Invested in capital assets, net of related debt	162	4,970		20,337	25,469
Unrestricted (deficit)	(26,548)	1,437	32,324	1,669	8,882
Total net assets (deficiency)	\$ (26,386)	\$ 6,407	\$32,324	\$22,006	\$ 34,351

STATE OF MARYLAND

Combining Statement of Activities

Non-major Component Units

For the Year Ended June 30, 2005

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total
Expenses:					
General and administrative	\$ 1,639	\$ 7,386	\$ 1,353	\$ 1,483	\$ 11,861
Operation and maintenance of facilities ..		68,984		1,393	70,377
Reduction in provision for insurance on loan losses, net			(313)		(313)
Tuition benefits	62,417				62,417
Interest on long-term debt		1,478			1,478
Depreciation and amortization	97	1,962		634	2,693
Other	18	794			812
Total expenses	64,171	80,604	1,040	3,510	149,325
Program revenues:					
Charges for services and sales	88,320	78,750	464	4,490	172,024
Restricted investment income		277			277
Total charges for services	88,320	79,027	464	4,490	172,301
Capital grants and contributions		2			2
Total program revenues	88,320	79,029	464	4,490	172,303
Net program revenue (expense)	24,149	(1,575)	(576)	980	22,978
General revenues:					
Unrestricted investment income	24,406	399	857	99	25,761
Total general revenues	24,406	399	857	99	25,761
Change in net assets	48,555	(1,176)	281	1,079	48,739
Net assets - beginning	(74,941)	7,583	32,043	20,927	(14,388)
Net assets - ending	\$ (26,386)	\$ 6,407	\$ 32,324	\$ 22,006	\$ 34,351

STATISTICAL SECTION

Statistical Section

This part of the State's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's economic condition.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the State's financial position and well-being have changed over time.	111
Revenue Capacity These schedules contain information to help the reader assess the State's most significant own-source revenues.	118
Debt Capacity These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	123
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	128
Operating Information These schedules contain service data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	131
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in 2002. The schedules presenting government-wide information include information beginning in that year.	

STATE OF MARYLAND

Net Assets by Component, Primary Government**Last Four Fiscal Years***

(accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30,			
	2005	2004	2003	2002
Governmental activities:				
Invested in capital assets, net of related debt.	\$12,940,305	\$11,937,207	\$11,943,249	\$11,016,638
Restricted**	773,663	584,558	350,553	458,552
Unrestricted (deficit)	(1,296,225)	(1,516,464)	(1,514,647)	18,563
Total governmental activities net assets	<u>\$12,417,743</u>	<u>\$11,005,301</u>	<u>\$10,779,155</u>	<u>\$11,493,753</u>
Business-type activities:				
Invested in capital assets, net of related debt.	\$1,217,923	\$1,331,400	\$1,231,338	\$1,217,578
Restricted	1,828,027	1,556,170	1,518,996	1,378,025
Unrestricted	1,450,868	1,197,542	1,208,954	1,610,282
Total business-type activities net assets	<u>\$4,496,818</u>	<u>\$4,085,112</u>	<u>\$3,959,288</u>	<u>\$4,205,885</u>
Primary government:				
Invested in capital assets, net of related debt.	\$14,158,228	\$13,268,607	\$13,174,587	\$12,234,216
Restricted	2,601,690	2,140,728	1,869,549	1,836,577
Unrestricted (deficit)	154,643	(318,922)	(305,693)	1,628,845
Total primary government net assets	<u>\$16,914,561</u>	<u>\$15,090,413</u>	<u>\$14,738,443</u>	<u>\$15,699,638</u>

*Information for fiscal years prior to fiscal year ended June 30, 2002, is not available.

**Information for fiscal years 2002 & 2003 has been restated in fiscal year 2004 to reflect reclassifications of certain balances.

STATE OF MARYLAND

Changes in Net Assets
Last Four Fiscal Years*
(accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,			
	2005	2004	2003	2002
Governmental activities (1):				
Expenses	\$21,203,763	\$20,382,202	\$19,588,410	\$18,234,226
Program revenues	7,948,502	7,941,822	7,221,988	6,579,856
Net (expense)/revenue, governmental activities	(13,255,261)	(12,440,380)	(12,366,422)	(11,654,370)
General revenues and other changes, governmental activities	14,667,703	12,592,202	11,651,824	11,209,102
Change in net assets, governmental activities	1,412,442	151,822	(714,598)	(445,268)
Net assets, beginning	11,005,301	10,779,155	11,493,753	3,371,858
Restatement (2)		74,324		8,567,163
Net assets, ending, governmental activities	\$ 12,417,743	\$ 11,005,301	\$ 10,779,155	\$ 11,493,753
Business-type activities (1):				
Expenses	\$ 1,980,350	\$ 2,038,850	\$ 2,191,318	\$ 1,960,333
Program revenues	2,755,686	2,594,808	2,339,895	2,097,340
Net (expense)/revenue, business-type activities	775,336	555,958	148,577	137,007
General revenues and other changes, business-type activities	(396,571)	(430,134)	(395,174)	(99,232)
Change in net assets, business-type activities ..	378,765	125,824	(246,597)	37,775
Net assets, beginning	4,085,112	3,959,288	4,205,885	2,995,032
Restatement (2)	32,941			1,173,078
Net assets, ending, business-type activities	\$ 4,496,818	\$ 4,085,112	\$ 3,959,288	\$ 4,205,885
Primary government:				
Expenses	\$ 23,184,113	\$ 22,421,052	\$ 21,779,728	\$ 20,194,559
Program revenues	10,704,188	10,536,630	9,561,883	8,677,196
Net (expense)/revenue, primary government .	(12,479,925)	(11,884,422)	(12,217,845)	(11,517,363)
General revenues and other changes, primary government	14,271,132	12,162,068	11,256,650	11,109,870
Change in net assets, primary government	1,791,207	277,646	(961,195)	(407,493)
Net assets, beginning	15,090,413	14,738,443	15,699,638	6,366,890
Restatement	32,941	74,324		9,740,241
Net assets, ending, primary government .	\$ 16,914,561	\$ 15,090,413	\$ 14,738,443	\$ 15,699,638

*Information for fiscal years prior to fiscal year ended June 30, 2002 is not available.

- (1) See the Expenses by Function, Primary Government and Revenues, Primary Government schedules for detail information on expenses and revenues.
- (2) The beginning fund balances for fiscal year 2002 were restated due to implementation of GASB Statement No. 34 and for fiscal year 2004 due to implementation of GASB Technical Bulletin No. 2004-1. The beginning fund balance for fiscal year 2005 was restated for a change in accounting principles regarding the valuation of investments by the State Lottery Agency. Prior year's balances were not restated.

STATE OF MARYLAND

Expenses by Function, Primary Government

Last Four Fiscal Years*

(accrual basis of accounting)

(Expressed in Thousands)

Functions/Programs	Year ended June 30,			
	2005	2004	2003	2002
Governmental activities:				
General government	\$ 747,486	\$ 598,116	\$ 665,133	\$ 610,560
Health and mental hygiene	6,202,439	6,090,102	5,592,272	4,908,418
Education	5,180,165	4,871,972	4,229,670	4,124,255
Aid for higher education**	1,074,048	1,081,099	1,554,955	1,536,851
Human resources	1,595,093	1,586,022	1,633,461	1,536,124
Public safety	1,498,684	1,398,017	1,338,202	1,194,952
Transportation	1,912,602	1,839,205	1,694,321	1,630,724
Judicial	476,253	439,576	429,302	408,571
Labor, licensing and regulation	170,344	175,551	182,584	173,625
Natural resources and recreation	184,599	169,791	168,107	149,372
Housing and community development	212,753	202,278	203,946	168,595
Environment	78,238	85,382	95,079	87,432
Agriculture	55,985	46,427	85,426	64,395
Business and economic development	58,127	58,666	43,387	55,570
Intergovernmental grants	1,453,408	1,461,133	1,422,007	1,375,043
Interest	303,539	278,865	250,558	209,739
Total governmental activities expenses	21,203,763	20,382,202	19,588,410	18,234,226
Business-type activities:				
Economic development - insurance programs	(132)	(4,911)	2,938	5,262
Economic development - general loan programs	31,010	53,237	48,633	69,381
Economic development - water quality loan programs	10,574	11,348	11,510	11,892
Economic development - housing loan programs	138,723	135,717	213,404	210,469
Unemployment insurance program	432,125	581,634	633,904	550,345
Maryland State Lottery	1,005,275	927,941	883,736	867,910
Maryland Transportation Authority	324,838	300,072	359,015	205,831
State Use Industries	37,937	33,812	38,178	39,243
Total business-type activities expenses	1,980,350	2,038,850	2,191,318	1,960,333
Total primary government expenses	\$23,184,113	\$22,421,052	\$21,779,728	\$20,194,559

*Information for fiscal years prior to fiscal year ended June 30, 2002 is not available.

**Information for fiscal years 2002 & 2003 has been restated to reflect reclassification of certain expenditures.

STATE OF MARYLAND

Revenues, Primary Government**Last Four Fiscal Years**

(accrual basis of accounting)

(Expressed in Thousands)

Source	Year ended June 30,			
	2005	2004	2003	2002
Governmental activities:				
Program revenues:				
Charges for services:				
General government	\$ 484,933	\$ 349,078	\$ 325,115	\$ 238,480
Health and mental hygiene	320,596	289,988	224,300	191,164
Transportation	580,691	716,422	526,253	615,261
Judicial	384,985	384,215	276,787	291,546
Other activities	298,033	277,720	303,190	271,176
Operating grants and contributions	5,091,053	5,204,906	4,843,927	4,225,374
Capital grants and contributions	788,211	719,493	722,416	746,855
Total program revenues	7,948,502	7,941,822	7,221,988	6,579,856
General revenues:				
Taxes:				
Income taxes	6,829,564	5,518,813	5,107,593	4,913,185
Sales and use taxes	3,149,736	2,944,534	2,719,547	2,690,099
Motor vehicle taxes	2,031,862	1,792,769	1,693,736	1,660,994
Other taxes	2,105,362	1,852,418	1,545,013	1,413,307
Unrestricted investment earnings	130,359	48,134	62,611	109,065
Special items			114,200	25,628
Transfers	420,820	435,534	409,124	396,824
Total general revenues, special items and transfers	14,667,703	12,592,202	11,651,824	11,209,102
Total revenues, transfers and special items - governmental activities	22,616,205	20,534,024	18,873,812	17,788,958
Business-type activities:				
Program revenues:				
Charges for services:				
Unemployment insurance program	590,805	528,238	341,004	254,483 **
Maryland State Lottery	1,485,733	1,395,408	1,322,239	1,306,538
Maryland Transportation Authority	359,157	280,098	242,429	189,658
Other activities	242,337	203,462	257,859	337,536 **
Operating grants and contributions	26,206	129,991	136,113	234,993
Capital grants and contributions	51,448	51,448	40,251	53,701
Total program revenues	2,755,686	2,588,645	2,339,895	2,376,909
General revenues:				
Unrestricted investment earnings	24,249	5,400	13,950	18,023 **
Transfers	(420,820)	(435,534)	(409,124)	(396,824)
Total general revenues and transfers	(396,571)	(430,134)	(395,174)	(378,801)
Total revenues and transfers - business-type activities	2,359,115	2,158,511	1,944,721	1,998,108
Total primary government revenues, special items, and transfers	\$24,975,320	\$22,692,535	\$20,818,533	\$19,787,066

*Information for fiscal years prior to the fiscal year ended June 30, 2002 is not available.

**Information for fiscal year 2002 has been restated to reflect reclassification of certain revenues.

STATE OF MARYLAND

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General Fund:										
Reserved	\$1,537,565	\$1,362,310	\$1,295,012	\$1,368,973	\$1,467,309	\$1,072,483	\$1,175,393	\$1,062,223	\$ 865,377	\$ 810,066
Unreserved (deficit)	1,084,392	127,127	(110,344)	265,468	989,296	1,297,584	802,572	532,969	193,686	(49,665)
Total general fund	2,621,957	1,489,437	1,184,668	1,634,441	2,456,605	2,370,067	1,977,965	1,595,192	1,059,063	760,401
All Other Governmental Funds:										
Reserved	563,511	588,190	554,714	615,866	566,430	472,225	507,288	485,012	571,127	670,762
Unreserved, reported in:										
Special revenue funds	173,094	199,289	135,710	134,470	400,957	418,314	243,757	315,546	254,789	179,033
Capital projects funds(1)	(297,322)	(425,038)	(163,001)	(156,587)	222,161	(27,397)	119,510	(80,848)	(244,778)	(253,732)
Debt service funds	115,833	73,268	30,815	25,916	117,127	98,550	100,130	114,529	96,338	120,016
Total all other governmental funds	555,116	435,709	558,238	619,665	1,306,675	961,692	970,685	834,239	677,476	716,079
Total governmental funds	\$3,177,073	\$1,925,146	\$1,742,906	\$2,254,106	\$3,763,280	\$3,331,759	\$2,948,650	\$2,429,431	\$1,736,539	\$1,476,480

(1) The unreserved fund balance deficit of the capital projects fund will be funded by future bond proceeds and capital appropriations of the general fund.

STATE OF MARYLAND

Changes in Fund Balances, Governmental Funds,

Last Ten Fiscal Years

(modified accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Revenues:										
Income taxes	\$ 6,814,378	\$ 5,499,953	\$ 5,080,359	\$ 4,911,807	\$ 5,741,664	\$ 5,223,740	\$ 4,845,406	\$ 4,491,384	\$ 4,084,147	\$ 3,796,251
Retail sales and use taxes	3,153,676	2,945,060	2,717,383	2,689,567	2,646,103	2,497,531	2,299,266	2,161,158	2,093,876	2,000,298
Motor vehicle taxes and fees	2,031,862	1,792,769	1,693,736	1,660,994	1,577,714	1,570,433	1,507,898	1,426,340	1,373,002	1,321,412
Other taxes	2,105,362	1,852,417	1,545,013	1,413,307	1,453,179	1,366,807	1,203,907	1,149,092	1,057,592	1,065,176
Other licenses and fees	759,953	754,995	544,456	610,009	450,768	459,063	328,442	289,414	208,009	211,817
Charges for services	978,535	1,044,636	775,852	814,332	875,717	793,722	758,698	737,099	658,583	670,901
Revenues pledged as security for bonds	70,875	52,255	69,108	41,161 (2)						
Interest and other investment income	102,532	32,251	51,304	108,214	288,936	193,897	174,945	151,443	138,893	114,986
Federal	5,916,233	5,872,371	5,506,539	4,931,908	4,451,010	3,973,662	3,681,692	3,509,817	3,726,882	3,357,959
Other	331,224	162,748	261,226	153,510	126,379	99,482	164,922	134,829	134,875	186,902
Total revenues	22,264,630	20,009,455	18,244,976	17,334,809	17,611,470	16,178,337	14,965,176	14,050,576	13,475,859	12,725,702
Expenditures:										
Current:										
General government	703,466	627,626	640,205	627,367	586,812	546,049	495,028	427,482	382,424	520,419
Education	6,235,534	5,919,742	5,779,552	5,675,065	3,888,180	3,626,739	3,440,054	3,239,233	3,025,536	2,818,909
Business and economic development	57,287	58,259	43,441	55,418	55,952	54,593	50,344	45,083	41,026	42,259
Labor, licensing and regulation ..	166,787	174,047	181,835	174,725	177,196	183,363	158,192	148,980	141,523	155,495
Human resources	1,569,032	1,560,876	1,614,493	1,536,780	1,456,484	1,341,603	1,285,650	1,317,365	1,304,480	1,344,361
Health and mental hygiene	6,329,383	6,064,735	5,545,991	4,893,824	4,483,159	3,956,048	3,599,677	3,255,961	3,323,439	3,132,078
Environment	76,393	84,443	95,500	87,447	78,960	73,910	68,119	60,973	64,722	71,911
Transportation	1,273,622	1,143,520	1,123,911	1,103,756	1,070,893	1,007,331	979,560	859,460	860,986	859,208
Public safety	1,435,406	1,357,943	1,326,612	1,265,624	1,533,283	1,435,979	1,349,764	1,202,632	1,238,772	1,061,974
Judicial	462,568	434,135	421,702	407,079 (3)						
Housing and community development	211,577	202,346	205,501	168,580	121,602	103,804	106,604	97,661	80,390	67,093
Natural resources and recreation	167,018	166,730	175,845	167,160	150,850	147,179	131,541	122,113	125,269	123,681
Agriculture	56,624	60,537	83,384	91,562	75,990	59,552	53,078	42,202	38,138	43,010
Intergovernmental	1,453,408	1,461,133	1,422,007	1,375,043	1,336,429	1,186,985	1,151,315	1,109,755	1,036,094	933,700
Debt service:										
Principal	464,650	424,925	421,859	406,850	397,581	406,047	374,882	364,154	358,850	370,675
Interest	258,791	247,027	203,701	202,834	220,466	234,840	228,748	229,148	226,739	231,324
Capital outlays	1,531,461	1,461,067	1,464,110	1,415,740	1,343,570	1,121,889	1,106,875	1,044,187	1,137,356	1,047,936
Total expenditures	22,453,007	21,449,091	20,749,649	19,654,854	16,977,407	15,485,911	14,579,431	13,566,389	13,385,744	12,824,033

Excess (deficiency) of revenues over expenditures	(188,377)	(1,439,636)	(2,504,673)	(2,320,045)	634,063	692,426	385,745	484,187	90,115	(98,331)
Other financing sources (uses) :										
Capital leases	154,434	145,455	101,814	44,294	70,793	54,489	100,001	117,234	62,200	62,930
Proceeds from bond issues	937,480	898,818	1,196,199	615,846	422,890	202,417	483,805	514,190	460,000	469,504
Other long-term liabilities	12,321	142,015	171,239	119,460		20,000				
Proceeds from refunding bonds ...	855,840	83,591	685,594	117,458				113,340		
Payments to escrow agents	(940,591)	(83,537)	(684,697)	(117,217)				(113,661)		
Transfers in	1,152,565	1,111,330	1,244,595	1,453,353	1,644,746	1,321,917	1,179,676	1,020,788	920,843	910,063
Transfers out	(731,745)	(675,796)	(835,471)	(1,056,529)	(1,302,866)	(991,248)	(806,851)	(670,151)	(563,969)	(548,955)
Transfers to component units				(4)	(1,038,105)	(916,892)	(823,157)	(773,035)	(710,162)	(679,000)
Net other sources(uses) of financial resources	1,440,304	1,621,876	1,879,273	1,176,665	(202,542)	(309,317)	133,474	208,705	168,912	214,542
Special items			114,200	25,628	(5)					
Net change in fund balances ..	1,251,927	182,240	(511,200)	(1,117,752)	431,521	383,109	519,219	692,892	259,027	116,211
Fund balance, July 1	1,925,146	1,742,906	2,254,106	3,763,280	3,331,759	2,948,650	2,429,431	1,736,539	1,476,480	1,360,269
Adjustments				(391,422)	(6)				1,032 (1)	
Fund balance, June 30	\$ 3,177,073	\$1,925,146	\$ 1,742,906	\$ 2,254,106	\$ 3,763,280	\$ 3,331,759	\$ 2,948,650	\$ 2,429,431	\$ 1,736,539	\$ 1,476,480
Debt service as a percentage of noncapital expenditures	3.5%	3.4%	3.3%	3.4%	4.0%	4.5%	4.5%	4.7%	4.8%	5.1%

(1) Effective July 1, 1996, investments of the general governmental funds were valued at fair value which is based on quoted market prices.

(2) These revenues were previously recorded as Federal revenue.

(3) These expenditures were previously included in public safety.

(4) Effective July 1, 2001, all transactions between the primary government and component units are treated as revenues and expenses.

(5) Includes certain one-time transfers from organizations outside the primary government.

(6) Effective July 1, 2001, the beginning fund balance was restated for inventory. Also, the Maryland Transportation Authority's activities were no longer recorded in the special revenue and debt service funds, and its beginning equity was reclassified from the respective governmental funds to the enterprise funds.

STATE OF MARYLAND

Personal Income Tax Filers by Subdivision**Tax Year Ended December 31, 2004**

(Dollars Expressed in Thousands)

Subdivision	Number of Filers	Adjusted Gross Income	Net Taxable Income	State Income Tax (1)	Local Income Tax	Total State and Local Income Tax	Local Tax Rate
Allegany	22,743	\$ 964,738	\$ 732,810	\$ 32,332	\$ 20,845	\$ 53,177	2.93%
Anne Arundel	198,201	13,832,022	10,742,845	487,933	272,564	760,497	2.56%
Baltimore County ...	308,791	19,441,423	15,107,949	678,203	421,368	1,099,571	2.83%
Calvert	31,723	2,211,126	1,673,752	76,439	46,455	122,894	2.80%
Caroline	11,014	490,476	361,196	15,017	9,161	24,178	2.63%
Carroll	61,928	4,088,600	3,124,875	142,325	94,578	236,903	3.05%
Cecil	33,412	1,831,592	1,391,630	44,330	38,330	82,660	2.80%
Charles	51,160	3,155,890	2,318,098	104,958	66,345	171,303	2.90%
Dorchester	11,148	498,737	375,371	16,002	9,429	25,431	2.62%
Frederick	85,466	5,674,828	4,351,602	197,619	127,666	325,285	2.96%
Garrett	9,578	434,406	327,160	14,279	8,406	22,685	2.65%
Harford	89,422	5,647,258	4,328,286	194,518	131,139	325,657	3.06%
Howard	101,409	9,038,093	7,229,934	331,078	230,162	561,240	3.20%
Kent	6,967	391,822	300,900	12,179	7,606	19,785	2.58%
Montgomery	361,268	31,160,185	24,901,354	1,102,584	791,115	1,893,699	3.20%
Prince George's	325,123	16,423,364	11,114,876	490,429	345,279	835,708	3.20%
Queen Anne's	16,269	1,162,449	893,997	39,861	25,249	65,110	2.85%
St. Mary's	34,238	2,070,018	1,589,956	72,167	48,670	120,837	3.10%
Somerset	6,480	252,783	183,005	7,731	5,454	13,185	3.15%
Talbot	13,838	1,019,237	814,648	35,470	18,098	53,568	2.25%
Washington	51,706	2,583,378	1,979,693	88,246	54,348	142,594	2.80%
Wicomico	31,516	1,620,551	1,254,486	52,088	37,743	89,831	3.10%
Worcester	19,918	1,133,965	891,214	38,436	10,949	49,385	1.25%
Baltimore City	196,359	8,249,650	6,001,651	253,463	171,597	425,060	3.05%
Non-resident	63,982	2,691,812	2,309,689	134,762		134,762	
Total	2,143,659	\$136,068,403	\$104,300,977	\$4,662,449	\$2,992,556	\$7,655,005	

(1) See personal income tax state rates schedule for tax rate information.

Source: Revenue Administration Division, State Comptroller's Office

STATE OF MARYLAND

State Personal Income Tax and Sales Tax Rates
Last Ten Calendar Years

Year	Personal Income Tax Rate				Sales Tax Rate
	1st \$1,000 of Net Taxable Income	2nd \$1,000 of Net Taxable Income	3rd \$1,000 of Net Taxable Income	In excess of \$3,000 Net Taxable Income	
2004	2%	3%	4%	4.75%	5%
2003	2	3	4	4.75	5
2002	2	3	4	4.75	5
2001	2	3	4	4.80	5
2000	2	3	4	4.85	5
1999	2	3	4	4.85	5
1998	2	3	4	4.88	5
1997	2	3	4	5.00	5
1996	2	3	4	5.00	5
1995	2	3	4	5.00	5

Source: Revenue Administration Division, State Comptroller's Office

STATE OF MARYLAND

Personal Income Tax Filers and Liability by Income Level
Last Seven Tax Years Ended December 31st*
(Dollars, except income level, Expressed in Thousands)

2004				2003			
	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Income Tax Liability	Percentage of Total	
Income Level							
\$100,000 and higher	322,388	15.04 %	\$2,473,983	13.75 %	\$2,107,257	49.48 %	
\$75,000-\$99,999	213,573	9.96	638,382	9.77	611,558	14.36	
\$50,000-\$74,999	347,875	16.23	703,769	16.40	695,499	16.33	
\$25,000-\$49,999	626,618	29.23	661,464	29.76	660,343	15.51	
\$10,000-\$24,999	507,779	23.69	171,094	24.40	170,481	4.00	
Under \$10,000	125,426	5.85	13,758	5.92	13,594	0.32	
Total	2,143,659	100.00 %	\$4,662,450	100.00 %	\$4,258,732	100.00 %	
2002				2001			
	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Income Tax Liability	Percentage of Total	
Income Level							
\$100,000 and higher	269,980	12.87 %	\$1,924,320	12.33 %	\$1,935,778	46.45 %	
\$75,000-\$99,999	201,154	9.59	597,359	9.27	596,649	14.32	
\$50,000-\$74,999	346,786	16.53	700,379	16.31	715,851	17.18	
\$25,000-\$49,999	631,516	30.10	672,903	30.18	710,635	17.05	
\$10,000-\$24,999	523,825	24.97	176,215	25.44	192,110	4.61	
Under \$10,000	124,636	5.94	14,180	6.47	16,364	0.39	
Total	2,097,897	100.00 %	\$4,085,356	100.00 %	\$4,167,387	100.00 %	

2000

	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level				
\$100,000 and higher	249,751	11.88 %	\$2,079,398	47.90 %
\$75,000-\$99,999	186,436	8.86	586,145	13.50
\$50,000-\$74,999	335,542	15.95	720,951	16.61
\$25,000-\$49,999	623,894	29.66	729,468	16.80
\$10,000-\$24,999	552,841	26.29	206,352	4.75
Under \$10,000	154,889	7.36	19,193	0.44
Total	2,103,353	100.00 %	\$4,341,506	100.00 %

1999

	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level				
\$100,000 and higher	216,148	10.60 %	\$1,759,730	44.58 %
\$75,000-\$99,999	173,353	8.50	545,918	13.83
\$50,000-\$74,999	324,731	15.92	698,803	17.70
\$25,000-\$49,999	607,977	29.81	713,496	18.08
\$10,000-\$24,999	557,913	27.36	209,862	5.32
Under \$10,000	159,306	7.81	19,534	0.49
Total	2,039,428	100.00 %	\$3,947,343	100.00 %

1998

	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total
Income Level				
\$100,000 and higher	190,139	9.54 %	\$1,563,153	42.04 %
\$75,000-\$99,999	162,770	8.17	515,946	13.87
\$50,000-\$74,999	317,930	15.95	687,644	18.49
\$25,000-\$49,999	601,315	30.18	714,703	19.22
\$10,000-\$24,999	565,454	28.38	217,229	5.84
Under \$10,000	155,103	7.78	20,150	0.54
Total	1,992,711	100.00 %	\$3,718,824	100.00 %

Source: Revenue Administration Division, State Comptroller's Office

*Information not available for tax years prior to December 31, 1998.

STATE OF MARYLAND

Sales and Use Tax Receipts by Principal Type of Business
Last Ten Fiscal Years
(Expressed in Thousands)

Year	Food and Beverage	Apparel	General Merchandise	Automotive	Furniture and Appliances	Building & Industrial Supplies	Utilities & Transportation	Hardware, Machinery & Equipment	Miscellaneous	Assessment Collections	Total Collections
2005	\$624,292	\$151,837	\$568,018	\$221,341	\$360,580	\$475,135	\$254,860	\$84,498	\$390,889	\$22,226	\$3,153,676
2004	591,744	144,961	538,364	216,385	333,307	417,729	231,099	78,351	387,780	29,721	2,969,441
2003	555,108	133,363	504,099	202,927	314,144	359,468	218,537	70,427	362,003	17,165	2,737,241
2002	542,276	132,067	489,102	197,122	315,080	365,132	214,839	72,343	359,394	21,184	2,708,539
2001	519,182	131,930	483,137	193,744	342,499	348,702	228,701	73,417	330,213	17,534	2,669,059
2000	486,772	121,352	455,649	179,047	328,156	339,764	193,773	72,282	327,442	16,747	2,520,984
1999	464,543	113,629	422,185	145,572	305,184	309,121	163,207	66,603	312,845	12,909	2,315,798
1998	445,391	105,111	409,091	138,356	282,982	274,130	145,474	67,133	291,963	20,331	2,179,962
1997	435,908	99,808	394,279	139,086	280,499	245,292	143,728	77,080	272,710	15,574	2,103,964
1996	420,018	100,631	371,495	139,883	272,000	222,920	135,951	71,812	244,251	21,333	2,000,294

Source: Revenue Administration Division, Comptroller's Office

STATE OF MARYLAND

Schedule of Ratio of Outstanding Debt by Type
Last Four Fiscal Years*
(Dollars Expressed in Thousands except Per Capita)

Fiscal Year	General Bonded Debt			Other Governmental Activities Debt			Debt Ratios, Governmental Activities			Business Type Activities Debt			Total		Debt Ratios, Primary Government	
	General Obligation Bonds	Transportation Bonds	Capital Leases	Capital Leases with Component Units	Total Governmental Activities Debt	Percentage of Personal Income (1)	Per Capita (1)	Revenue Bonds	Capital Leases	Business-Type Activities Debt	Primary Government Debt	Percentage of Personal Income (1)	Per Capita (1)			
2005	\$4,511,826	\$1,071,620	\$440,236	\$304,220	\$6,327,902	2.90%	1,139	\$2,825,315	\$1,673	\$2,826,988	\$9,154,890	4.20%	1,647			
2004	4,102,278	1,188,090	345,028	303,901	5,939,297	2.89	1,078	2,935,711	3,132	2,938,843	8,878,140	4.32	1,612			
2003	3,932,493	964,400	262,792	296,672	5,456,357	2.76	1,001	3,220,797	2,371	3,223,168	8,679,525	4.39	1,592			
2002	3,544,178	717,980	220,649	290,510	4,773,317	2.51	887	3,412,923	3,243	3,416,166	8,189,483	4.30	1,521			

Source: General Accounting Division, State Comptroller's Office

(1) Population and personal income data can be found in the Schedule of Demographic Statistics.

*Information for fiscal years prior to fiscal year ended June 30, 2002, is not available.

STATE OF MARYLAND

**Ratio of General Bonded Debt
To Actual Value and General Bonded Debt Per Capita
Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)			Ratio of General Bonded Debt to Actual Property Value	General Bonded Debt per Capita
	Estimated Population (1)	Estimated Property Value	General Bonded Debt (2)		
2005	5,558	\$398,065,083	\$4,511,826	1.13 %	\$812
2004	5,509	361,689,307	4,102,278	1.13	745
2003	5,451	336,657,741	3,932,493	1.17	721
2002	5,383	318,778,365	3,544,178	1.11	658
2001	5,312	307,476,610	3,450,900	1.12	650
2000	5,255	327,817,193	3,348,866	1.02	637
1999	5,204	317,639,013	3,500,228	1.10	673
1998	5,157	309,303,572	3,270,525	1.06	634
1997	5,111	299,899,529	3,025,394	1.01	592
1996	5,070	293,505,618	2,859,939	0.97	564

Source: The Fifty-first through Sixtieth Report of the State Department of Assessments and Taxation and the State Comptroller's Office.

(1) See Schedule of Demographic Statistics.

(2) Includes general obligation bonds. The primary revenue source to pay the debt service for general obligation bonds is property taxes.

STATE OF MARYLAND

Legal Debt Margin Information

Last Ten Fiscal Years
(Expressed in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2005

Debt limit(1)	\$7,819,314
Debt applicable to limit:	
General obligation bonds	4,511,826
Transportation bonds	1,069,945
Less amounts set aside for repayment of:	
General obligation debt	116,996
Transportation debt	1,756
Total net debt applicable to limit	5,463,019
Legal debt margin	<u>\$2,356,295</u>

	Year ended June 30,									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Debt limit	\$7,819,314	\$7,301,732	\$6,800,976	\$6,116,782	\$5,747,158	\$5,677,486	\$5,483,722	\$5,397,037	\$5,250,050	\$5,034,576
Total net debt applicable to limit	5,463,019	5,212,769	4,862,003	4,232,412	4,081,297	4,053,728	4,223,364	4,079,910	3,901,959	3,769,718
Legal debt margin	<u>\$2,356,295</u>	<u>\$2,088,963</u>	<u>\$1,938,973</u>	<u>\$1,884,370</u>	<u>\$1,665,861</u>	<u>\$1,623,758</u>	<u>\$1,260,358</u>	<u>\$1,317,127</u>	<u>\$1,348,091</u>	<u>\$1,264,858</u>
Total net debt applicable to the limit as a percentage of debt limit	69.87%	71.39%	71.49%	69.19%	71.01%	71.40%	77.02%	75.60%	74.32%	74.88%

Source: General Accounting Division, State Comptroller's Office

(1) For general obligation bonds, the debt limit is based on separate enabling acts for particular objects or purposes that are enacted during each legislative session. There is no separately mandated maximum amount for the issuance of general obligation bonds. For transportation bonds, the General Assembly each year establishes a maximum aggregate outstanding amount that does not exceed \$1,500,000,000 up to June 30, 2004, and \$2,000,000,000, thereafter.

STATE OF MARYLAND

**Schedule of Taxes Pledged to Consolidated Transportation
Bonds and Net Revenues as Defined for Purposes of
Consolidated Transportation Bonds Coverage Tests (1)
Last Ten Fiscal Years
(Expressed in Thousands)**

	Year ended June 30									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Revenues:										
Taxes and fees (2):										
Taxes pledged to bonds	\$1,220,851	\$1,145,048	\$1,073,953	\$1,046,715	\$1,027,808	\$ 981,548	\$ 934,051	\$ 857,816	\$ 839,928	\$ 813,072
Other taxes and fees	381,516	112,305 (3)	88,833 (3)	238,303	219,426	220,672	214,483	198,101	196,044	187,558
Total taxes and fees	1,602,367	1,257,353	1,162,786	1,285,018	1,247,234	1,202,220	1,148,534	1,055,917	1,035,972	1,000,630
Operating revenues	328,210	339,635	299,844	297,489	303,206	311,909	267,946	241,357	218,874	203,891
Investment income	4,928	3,374	2,960	3,724	10,423	10,206	10,142	10,933	9,108	13,646
Other	74,730	90,943	79,023	25,950	24,619	19,361	15,486	14,228	9,913	21,670
Total revenues	2,010,235	1,691,305	1,544,613	1,612,181	1,585,482	1,543,696	1,442,108	1,322,435	1,273,867	1,239,837
Administration, operation and maintenance expenditures	1,237,637	1,177,889	1,159,176	1,044,908	979,318	913,059	868,439	808,439	769,977	784,816
Less: Federal funds	(79,892)	(76,503)	(76,841)	(50,396)	(29,418)	(24,723)	(20,472)	(11,530)	(19,966)	(21,520)
Total	1,157,745	1,101,386	1,082,335	994,512	949,900	888,336	847,967	796,909	750,011	763,296
Net revenues	\$ 852,490	\$ 589,919	\$ 462,278	\$ 617,669	\$ 635,582	\$ 655,360	\$ 594,141	\$ 525,526	\$ 523,856	\$ 476,541
Maximum annual principal and interest requirements	\$ 141,172	\$ 169,655	\$ 153,965	\$ 138,183	\$ 127,060	\$ 127,060	\$ 133,267	\$ 133,267	\$ 142,769	\$ 140,269
Ratio of net revenues to maximum annual principal and interest requirements ..	6.04	3.48	3.00	4.47	5.00	5.16	4.46	3.94	3.67	3.40
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements	8.65	6.75	6.98	7.57	8.09	7.73	7.01	6.44	5.88	5.80

Source: The Secretary's Office of the Department of Transportation.

- (1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the preceding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.
- (2) Consolidated Transportation Bonds are payable from certain taxes, principally, motor vehicle excise taxes, motor fuel taxes, and a portion of the corporate income tax. These amounts are available to the extent necessary for that exclusive purpose. Other receipts of the Department are available if necessary.
- (3) In fiscal years 2003 and 2004, \$160,000,000 and \$154,913,000, respectively, of other taxes and fees were transferred to the General Fund per legislation.

STATE OF MARYLAND

**Ratio of Pledged Assets to
Revenue Bonds, Community Development Administration
Last Ten Fiscal Years**

Fiscal Year	Pledged Assets (1)	Revenue Bonds Payable	Ratio of Pledged Assets to Revenue Bonds
2005	\$2,439,264	\$1,973,583	1.24
2004	2,643,756	2,211,905	1.20
2003	3,003,939	2,537,388	1.18
2002	3,030,657	2,628,254	1.15
2001	3,004,743	2,640,052	1.14
2000	2,917,980	2,606,943	1.12
1999	2,759,753	2,462,918	1.12
1998	2,711,296	2,385,177	1.14
1997	2,574,572	2,297,720	1.12
1996	2,630,911	2,394,813	1.10

(1) Bonds and notes issued by the Community Development Administration (CDA) are special obligations of CDA and are payable solely from the revenues of the applicable mortgage loan programs. Assets, principally mortgage loans, and program revenues are pledged as collateral for the revenue bonds.

STATE OF MARYLAND

Schedule of Demographic Statistics
Last Ten Years

	Population (1)	Total Personal Income (2) (Expressed in Thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2005	5,558,058	\$218,137,769	\$39,248	1,053,378	4.2%
2004	5,508,909	205,652,120	37,331	1,056,520	4.3
2003	5,450,525	197,868,861	36,303	1,056,944	4.7
2002	5,383,377	190,331,297	35,355	1,049,733	4.6
2001	5,311,531	181,957,207	34,257	1,040,020	3.8
2000	5,254,509	167,074,691	31,796	1,017,574	3.3
1999	5,204,464	157,783,778	30,317	1,009,870	4.0
1998	5,157,328	147,842,522	28,666	998,085	4.8
1997	5,111,986	140,035,065	27,393	985,180	5.0
1996	5,070,333	133,814,282	26,393	977,828	5.1

Sources:

(1) US Department of Commerce, Bureau of Census--"Annual Population Estimates by State"

Note: Figures are estimates for the calendar year except that the current year amount is a projected estimate for the year.

(2) US Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revision of State Personal Income Statistics for 1969-2002.

Preliminary estimates are provided for 2003-2004. Data provided is for the prior ending calendar year.

(3) Figures are for the calendar year. State Department of Education, grades pre-kindergarten thru grade 12. Includes public and nonpublic schools.

(4) Figures are for the fiscal year. State Department of Labor, Licensing and Regulation.

STATE OF MARYLAND

Schedule of Employment by Sector Prior Year and Nine Years Prior (3)

	Calendar Year 2004 (1)			Calendar Year 1995 (2)		
	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
Government:						
State and local	319,420	\$ 13,134,502	\$ 791	276,905	\$ 8,585,686	\$596
Federal	126,922	8,949,754	1,356	130,427	5,579,557	823
Total government	446,342	22,084,256	952	407,332	14,165,243	669
Manufacturing	143,172	7,634,577	1,025	175,790	6,451,114	706
Natural Resources and Mining	6,687	211,107	607			
Construction	175,967	7,747,169	847	127,262	3,788,838	573
Trade, Transportation, and Utilities	463,227	16,255,823	675	101,530	3,612,406	684
Wholesale				106,840	4,008,608	722
Retail				421,182	6,705,297	306
Information Services	50,121	3,056,880	1,173			
Financial Activities	156,352	9,340,823	1,149	128,597	4,659,492	697
Professional and Business Services	370,638	18,746,105	973			
Education and Health Services	333,435	13,036,630	752			
Leisure and Hospitality	224,371	3,934,236	337			
Unclassified and other Services	90,762	2,633,774	558	677,180	19,133,994	543
Total of all sectors	2,461,074	\$104,681,380	\$ 818	2,145,713	\$62,524,992	\$560

(1) Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information Publication "Employment and Payroll 2004 Annual Averages" issued August, 2005. This report reflects the new North American Industry Classification System (NAICS) coding revisions.

(2) Source: Maryland Department of Economic and Employment Development, Office of Labor Market Analysis and Information, December 31, 1995.

(3) Some of the data is not comparative due to the reclassifications made during the term of the two periods.

STATE OF MARYLAND

Maryland's Ten Largest Private Employers (1)
Calendar Years

2005	2004 and 2003
Employer (listed alphabetically)	
Giant of Maryland LLC	Giant of Maryland LLC
Helix Health System Inc.	Helix Health System Inc.
Home Depot USA Inc.	Home Depot USA Inc.
Johns Hopkins Hospital	Johns Hopkins Hospital
Johns Hopkins University	Johns Hopkins University
Northrop Grumman Corporation	Northrop Grumman Corporation
Safeway Inc	Safeway Inc
Target	United Parcel Service
United Parcel Service	Verizon Maryland Inc.
Wal-Mart	Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market
 Analysis and Information @ [www.dlir.state.md.us/Topprivate
 employers/Maryland Career and Workforce Information](http://www.dlir.state.md.us/Topprivateemployers/Maryland%20Career%20and%20Workforce%20Information).

(1) Information for prior years not available.

STATE OF MARYLAND

State Employees by Function/Program
Last Two Fiscal Years*

	Year ended June 30	
	2005	2004
State Employees:		
Governmental activities:		
General government	5,493	5,604
Health and mental hygiene	11,633	11,815
Education	2,295	2,180
Human resources	6,910	6,852
Public safety	15,207	15,356
Transportation	6,599	6,799
Judicial	5,496	5,387
Labor, licensing and regulation	1,667	1,691
Natural resources and recreation	2,028	2,076
Housing and community development	262	254
Environment	901	907
Agriculture	500	516
Business and economic development	307	303
Total governmental activities employees	<u>59,298</u>	<u>59,740</u>
Business-type activities:		
Economic development - insurance programs	201	205
Maryland State Lottery	169	177
Maryland Transportation Authority	1,503	1,562
State Use Industries	164	159
Total business-type activities employees	<u>2,037</u>	<u>2,103</u>
Total primary government employees	<u>61,335</u>	<u>61,843</u>
Component units:		
Higher Education	39,388	34,397
Stadium Authority	93	97
Other component units	59	41
Total component unit employees	<u>39,540</u>	<u>34,535</u>

Source: Central Payroll Bureau, State Comptroller's Office

*Information for prior years not available.

STATE OF MARYLAND

Schedule of Miscellaneous, Operating and Capital Asset Statistics by Function
Last Two Fiscal Years*

Date of Ratification	1788	
Form of Government	Legislative - Executive - Judicial	
Land Area	9,844 square miles	
Function/Program	2005**	2004
Education, Public School Enrollment	828,961	821,984
Health and Human Resources:		
Medicaid Enrollment	526,100	502,860
Children's Health Program Enrollment	94,410	98,420
WIC Food Program Recipients	101,000	106,060
Mental Hygiene Clients	94,448	90,849
Public Assistance Caseload (AFDC/TANF)	67,200	70,745
Child Care Slots Subsidized	26,725	25,434
Foster Care and Subsidized Adoption Average Caseload	15,690	15,028
Public Safety:		
Correctional Institutions Average Daily Population	28,350	27,933
Parole and Probation, Active Cases under Supervision	50,100	50,127
Youth Residential Programs, Average Daily Population	1,917	2,039
Number of Youths on Probation	7,500	6,840
Public Safety (State Police):		
Number of Police Stations	26	26
Number of State Police	1,593	1,596
Motor Vehicle Citations (calendar year)	450,000	459,272
Motor Vehicle Traffic Accidents (calendar year)	108,000	108,999
Transportation:		
Miles of State Highways	5,234	5,235
Lane Miles Maintained	16,743	16,711
Expenditures per Lane Mile	7,645	8,186
Number of Bridges***	1,332	1,322
Motor Vehicle Registrations	5.1 million	4.9 million
BWI Airport Passengers (calendar year)	21.8 million	20.5 million
Agricultural Land Preservation District Acreage	418,000	409,958
Department of Housing and Community Development:		
Active Single Family/Multifamily Loans	21,600	21,334
Department of Business and Economic Development:		
Number of businesses assisted	1,000	1,094
Number of workers trained	9,000	9,101
Higher Education (Universities, Colleges and Community Colleges):		
Number of Campuses in State	29	29
Number of Educators	8,606	8,432
Number of Students	251,984	246,794
Number of State Scholarships Awarded	51,687	44,851
Recreation:		
Number of State Parks and Forests	60	61
State Parks Daily Visitors	10.1 million	9.9 million
Area of State Parks, Acres	93,661	97,362
Area of State Forests, Acres	136,093	135,951

*Information for prior years not available.

** These amounts are estimates.

*** On Maryland's portion of the National Highway System

Sources: State Comptroller's Office, General Accounting Division, Central Payroll Bureau,
Maryland Manual @ www.mdarchives.state.md.us/msa/mdmanual,
Maryland Budget, Department of Budget and Management, Department of Natural Resources, and the State
Highway Administration of Maryland

FINANCIAL SCHEDULES REQUIRED BY LAW

These schedules are required to be submitted by the Comptroller by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland.

STATE OF MARYLAND

Schedule of Estimated and Actual Revenues By Source, Budgetary Basis, for the Year Ended June 30, 2005
(Expressed in Thousands)

	Annual Budgeted Funds										Capital Projects Fund	Total Actual Revenues
	General Fund		Special Fund		Federal Fund		Higher Education Funds					
							Current		Restricted Fund			
Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	
Taxes:												
Property tax		\$ 652	\$ 581,299	\$ 765,237								\$ 765,889
Franchise and corporation tax ..	136,418	133,165										133,165
Death taxes	164,281	183,115										183,115
Admission and amusement tax ..			5,307	1,772								1,772
Alcoholic beverages tax	26,957	27,341										27,341
Motor vehicle fuel taxes	13,319	13,159	749,414	739,651								752,810
Income taxes	6,017,543	6,323,895	181,278	210,808								6,534,703
Sales and use taxes	3,109,302	3,129,352	23,300	24,323								3,153,675
Tobacco taxes	270,222	275,792	13	4								275,796
Motor vehicle titling taxes			733,000	717,699								717,699
Insurance company taxes	274,072	268,912	45,500	43,614								312,526
Horse racing taxes			2,754	2,002								2,002
Shellfish taxes			120	82								82
Boxing, wrestling or sparring taxes		312	11									312
Boat titling tax			25,000	31,550								31,550
Energy generation tax			40,542	41,401								41,401
Emergency telephone system tax			60,927	61,459								61,459
Total taxes	10,012,114	10,355,695	2,448,465	2,639,602								12,995,297
Other:												
Licenses and permits	39,970	38,212	486,332	532,823								571,035
Fees for services	139,319	142,560	521,477	546,644								689,204
Fines and costs	124,372	149,072	130,967	169,587								318,659
Sales to the public	17,762	9,437	69,957	80,916								90,353
Commissions and royalties	477	42	67,225	52,429								52,471
Rentals	761	1,297	80,788	69,083								70,380
Interest on investments	50,846	82,891	8,449	20,120							\$ 282	103,293
Interest on loan repayments ...			4,367	4,492								4,492
Miscellaneous	156,916	131,258	111,161	75,731								207,095
Colleges and universities											106	2,614,652
Federal reimbursements and grants			10,278	14,123								5,707,034
Other reimbursements	125,037	135,765	380,137	236,223								371,988
Bond issues:												
State - general purpose			500	500							784,043	784,543
Consolidated transportation bonds			35,000									
Premiums											65,516	65,516
State reimbursements	450,606	582,330	198,649	95,476							4,282	682,088
Appropriated from general fund												850,960
Trust funds			17,300	14,414								14,414
Revolving accounts	5,000	3,979	17,175	24,037								28,016
Total revenues	\$11,123,180	\$11,632,558	\$4,588,227	\$4,576,200	\$6,251,842	\$5,692,911	\$2,645,216	\$2,597,277	\$912,716	\$868,335	\$854,229	\$26,221,490

STATE OF MARYLAND

Schedule of Budget and Actual Expenditures and Encumbrances by Major Function, Budgetary Basis, For the Year Ended June 30, 2005
(Expressed in Thousands)

Expenditures and Encumbrances by Major Function*	Annual Budgeted Funds												Capital Projects Fund	Total
	General Fund				Special Fund		Federal Fund		Higher Education Funds					
	Final		Actual	Final		Actual	Final		Actual	Current		Actual		
	Budget	Actual		Budget	Actual		Budget	Actual		Budget	Actual			
Payments of revenue to civil divisions of the State	\$ 128,490	\$ 128,246	\$ 560,315	\$ 553,783									\$ 128,246	
Public debt													553,783	
Legislative	61,320	61,319											61,319	
Judicial review and legal	368,100	365,310	\$70,107	61,307	\$ 4,268	\$ 3,953							430,570	
Executive and administrative control...	140,482	136,668	176,621	122,263	162,754	147,428							406,359	
Financial and revenue administration...	162,865	161,610	75,607	74,643									236,253	
Budget and management	45,423	43,523	29,871	26,074									69,597	
Retirement and pension.....			26,274	26,042									26,042	
General services	51,523	51,381	1,551	1,218	801	801							53,400	
Transportation and highways			2,705,678	2,556,081	932,675	823,186							3,379,267	
Natural resources and recreation	68,545	68,408	90,922	82,815	27,624	23,241							174,464	
Agriculture	25,654	25,526	39,179	37,890	9,099	7,714							71,130	
Health, hospitals and mental hygiene..	3,191,989	3,191,049	271,340	248,222	2,741,985	2,685,728							6,124,999	
Human resources	562,954	562,952	73,647	70,902	1,003,566	932,133							1,565,987	
Labor, licensing and regulation	18,505	18,034	22,089	19,376	140,995	133,511							170,921	
Public safety and correctional services..	822,979	819,696	134,451	128,469	12,085	9,433							957,598	
Public education	5,030,484	5,026,284	48,071	38,637	931,178	840,650			\$2,645,216	\$912,716	\$867,216		9,369,618	
Housing and community development	11,016	11,016	59,655	56,970	182,519	181,967							249,953	
Business and economic development...	63,057	63,057	41,052	25,650	778	707							89,414	
Environment.....	37,192	37,171	93,645	87,464	70,334	65,628							190,263	
Juvenile services.....	178,171	177,761	8,248	8,125	16,858	15,925							201,811	
State police	212,444	211,515	59,904	58,697	14,323	6,190							276,402	
State reserve fund.....	114,653	114,653											114,653	
Loan accounts.....												\$660,626	660,626	
Reversions:														
Current year reversions	(20,000)													
Prior year reversions		(11,368)		(34,206)		(49,347)		(2,122)		(37)			(97,080)	
Total expenditures and encumbrances	\$11,275,846	\$11,263,811	\$4,588,227	\$4,250,422	\$6,251,842	\$5,828,848	\$2,645,216	\$2,594,709	\$912,716	\$867,179	\$660,626	\$25,465,595		

* Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Changes in Fund Equities - Budgetary Basis For the Year Ended June 30, 2005
(Expressed in Thousands)

	General Fund		Special Fund		Higher Education			Capital Projects Fund	Total
	General	Reserve	Special	Debt Service	Federal Fund	Current Fund	Unrestricted Fund	Restricted Fund	
Fund equities, July 1, 2004	\$ 601,807	\$513,026	\$1,097,004	\$ 66,142		\$ 407,135	\$ 986	\$ (17,093)	\$ 2,669,007
Increase :									
Revenues	11,505,764	126,774	4,054,412	521,788	\$5,692,911	2,597,277	868,335	854,229	26,221,490
Decrease :									
Appropriations	11,295,846		4,027,913	560,314	6,251,842	2,645,216	912,716		
Less: Current year reversions	(20,667)		(297,068)	(6,531)	(373,647)	(48,385)	(45,500)		
Prior year reversions	(11,368)		(34,206)		(49,347)	(2,122)	(37)		
Expenditures and encumbrances*	11,263,811		3,696,639	553,783	5,828,848	2,594,709	867,179	660,626	25,465,595
Changes to encumbrances during fiscal year 2005	(8,528)		10,022		(934)	2,547	(47)		3,060
Expenditures	11,255,283		3,706,661	553,783	5,827,914	2,597,256	867,132	660,626	25,468,655
Transfers in (out)	479,815	(99,690)	(262,961)	89,036	135,003	(3,444)	(192)	(83,365)	254,202
Fund equities, June 30, 2005	\$ 1,332,103	\$540,110	\$1,181,794	\$123,183		\$ 403,712	\$ 1,997	\$ 93,145	\$ 3,676,044
Fund Balance:									
Reserved:									
Encumbrances	\$ 157,676		\$ 375,323		\$ 325,727	\$ 4,690	\$ 149	\$405,763	\$ 1,269,328
State reserve fund		\$540,110							540,110
Loans and notes receivable			6,773	\$ 9,580					16,353
Shore erosion loan program			7,399						7,399
Gain/Loss on Investments			(3,769)					34	(3,735)
Unreserved:									
Designated for:									
General long-term debt service				113,603					113,603
2006 operations	776,867								776,867
Undesignated surplus (deficit)	397,560		796,068		(325,727)	399,022	1,848	(312,652)	956,119
Total	\$ 1,332,103	\$540,110	\$1,181,794	\$123,183	\$ -	\$ 403,712	\$ 1,997	\$ 93,145	\$ 3,676,044

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Funds Transferred to Political Subdivisions
For the Year Ended June 30, 2005 (1)
 (Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources				Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants		Debt Service	Total	Federal Funds	State Administered			
		Appropriations					Local Revenue			
Allegany	\$ 3,892	\$ 87,878	\$ 926	\$ 92,696	\$ 17,006	\$ 24,708	\$ 134,410	\$ 2,564,207	\$5.24	
Anne Arundel	24,008	319,414	16,441	359,863	41,752	392,001	793,616	46,036,555	1.72	
Baltimore County	34,255	540,192	22,710	597,157	79,762	528,351	1,205,270	50,489,382	2.39	
Calvert	4,612	85,321	4,260	94,193	7,791	67,981	169,965	7,496,323	2.27	
Caroline	3,205	40,954	752	44,911	7,374	12,693	64,978	1,586,476	4.10	
Carroll	9,377	140,431	13,745	163,553	12,923	103,757	280,233	11,891,468	2.36	
Cecil	4,502	95,108	7,400	107,010	12,055	49,325	168,390	6,235,694	2.70	
Charles	6,335	140,349	22,537	169,221	15,725	78,247	263,193	10,075,543	2.61	
Dorchester	3,418	36,958	325	40,701	10,512	13,773	64,986	1,939,327	3.35	
Frederick	10,804	182,830	15,562	209,196	17,774	140,599	367,569	16,353,215	2.25	
Garrett	4,330	36,380	1,362	42,072	7,370	13,595	63,037	2,513,159	2.51	
Harford	11,296	203,100	12,493	226,889	22,228	170,099	419,216	15,597,527	2.69	
Howard	12,558	189,243	9,844	211,645	15,610	283,035	510,290	27,014,393	1.89	
Kent	1,833	15,791	583	18,207	6,023	10,404	34,634	1,690,504	2.05	
Montgomery	30,333	491,126	12,531	533,990	71,259	958,472	1,563,721	106,559,595	1.47	
Prince George's	22,281	847,019	22,749	892,049	111,544	466,320	1,469,913	49,033,034	3.00	
Queen Anne's	4,170	36,744	2,847	43,761	5,939	35,068	84,768	4,569,035	1.86	
St. Mary's	5,915	82,993	3,693	92,601	11,749	65,467	169,817	6,211,101	2.73	
Somerset	2,328	30,214	300	32,842	8,640	7,751	49,233	846,503	5.82	
Talbot	2,656	18,846		21,502	5,022	25,484	52,008	5,134,091	1.01	
Washington	6,547	121,731	2,535	130,813	21,494	69,770	222,077	7,922,077	2.80	
Wicomico	5,708	100,232	9,316	115,256	19,029	44,879	179,164	4,512,147	3.97	
Worcester	4,199	28,253	3,304	35,756	11,015	27,183	73,954	9,996,741	0.74	
Baltimore City	202,502	1,035,828	4,623	1,242,953	282,123	249,572	1,774,648	21,597,384	8.22	
Total	\$421,064	\$4,906,935	\$190,838	\$5,518,837	\$821,719	\$3,838,534	\$10,179,090	\$417,865,481		

(1) In addition to the amounts shown for counties and Baltimore City, \$154,535,000 was distributed to municipalities within the counties.

(2) Source: Sixty-first Report of the Department of Assessments and Taxation, dated January 2005. Assessed value of property is 100%.

STATE OF MARYLAND

**Schedule of Taxes Receivable from
Collectors of State Property Taxes**

June 30, 2005

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany	\$ 343	\$ 51	\$ 394
Anne Arundel	58	741	799
Baltimore County	315	241	556
Calvert	131	117	248
Caroline	11	10	21
Carroll	56	37	93
Cecil	(12)	374	362
Charles	22	157	179
Dorchester	176	28	204
Frederick	227	17	244
Garrett	166	37	203
Harford	(22)	115	93
Howard	(211)	1,235	1,024
Kent	(20)	114	94
Montgomery	(3,744)	(2,180)	(5,924)
Prince George's	90	480	570
Queen Anne's	9	9	18
St. Mary's	140	69	209
Somerset	95	10	105
Talbot	8	87	95
Washington	168	(254)	(86)
Wicomico	74	71	145
Worcester	257	71	328
Baltimore City	4,634	2,617	7,251
Total	\$ 2,971	\$ 4,254	\$ 7,225

STATE OF MARYLAND

Schedule of Estimated Revenues - Budgetary Basis
For the Year Ending June 30, 2006
(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Income taxes	\$ 6,302,340	\$ 158,304				\$ 6,460,644
Retail sales and use tax and licenses	3,255,921	23,940				3,279,861
Motor vehicle fuel taxes and licenses.	13,574	777,619				791,193
Motor vehicle tax and licenses	10,920	1,101,500				1,112,420
Property taxes		693,867 (1)				693,867
Insurance company taxes, licenses and fees	277,313					277,313
Franchise and corporation taxes	206,288					206,288
State tobacco tax and licenses	265,747					265,747
Alcoholic beverages taxes and licenses	28,386					28,386
Death taxes	160,396					160,396
Miscellaneous taxes, fees and other revenues	100,643	55,508 (2)				156,151
Budgeted tobacco settlement recoveries ...		122,726				122,726
Horse racing taxes and licenses	240	4,269				4,509
District courts fines and costs	83,707					83,707
Interest on investments	42,346	2,000				44,346
Hospital patient recoveries	83,751					83,751
Legislative	300					300
Judicial review and legal	64,918	75,205	\$ 4,408			144,531
Executive and administrative control	6,637	147,207	107,439			261,283
Financial and revenue administration	17,542	18,803				36,345
Budget and management	883	15,217				16,100
State lottery agency	463,848	53,185				517,033
Retirement and pension		21,401				21,401
General services	100	1,334	787			2,221
Transportation and highways		727,940	852,003			1,579,943
Natural resources and recreation	368	80,853	28,338			109,559
Agriculture	67	29,719	9,319			39,105
Health, hospitals and mental hygiene	17,537	151,712	2,778,501			2,947,750
Human resources	1,821	65,735	999,470			1,067,026
Labor, licensing and regulation	14,701	16,578	134,787			166,066
Public safety and correctional services	8,624	138,836	10,974			158,434
Public education	25,521	34,492	896,416	\$2,707,221	\$880,272	4,543,922
Housing and community development ...	1,015	54,066	240,115			295,196
Business and economic development		39,065	593			39,658
Environment	302	93,932	69,301			163,535
Juvenile justice	250	253	16,897			17,400
State police	2,918	60,049	448			63,415
Total estimated revenues	\$11,458,924	\$4,765,315	\$6,149,796	\$2,707,221	\$880,272	\$25,961,528 (3)

(1) Includes \$567,598,000 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$55,508,000 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported as of July 1, 2005, and do not reflect revisions, if any, subsequent to that date.

STATE OF MARYLAND

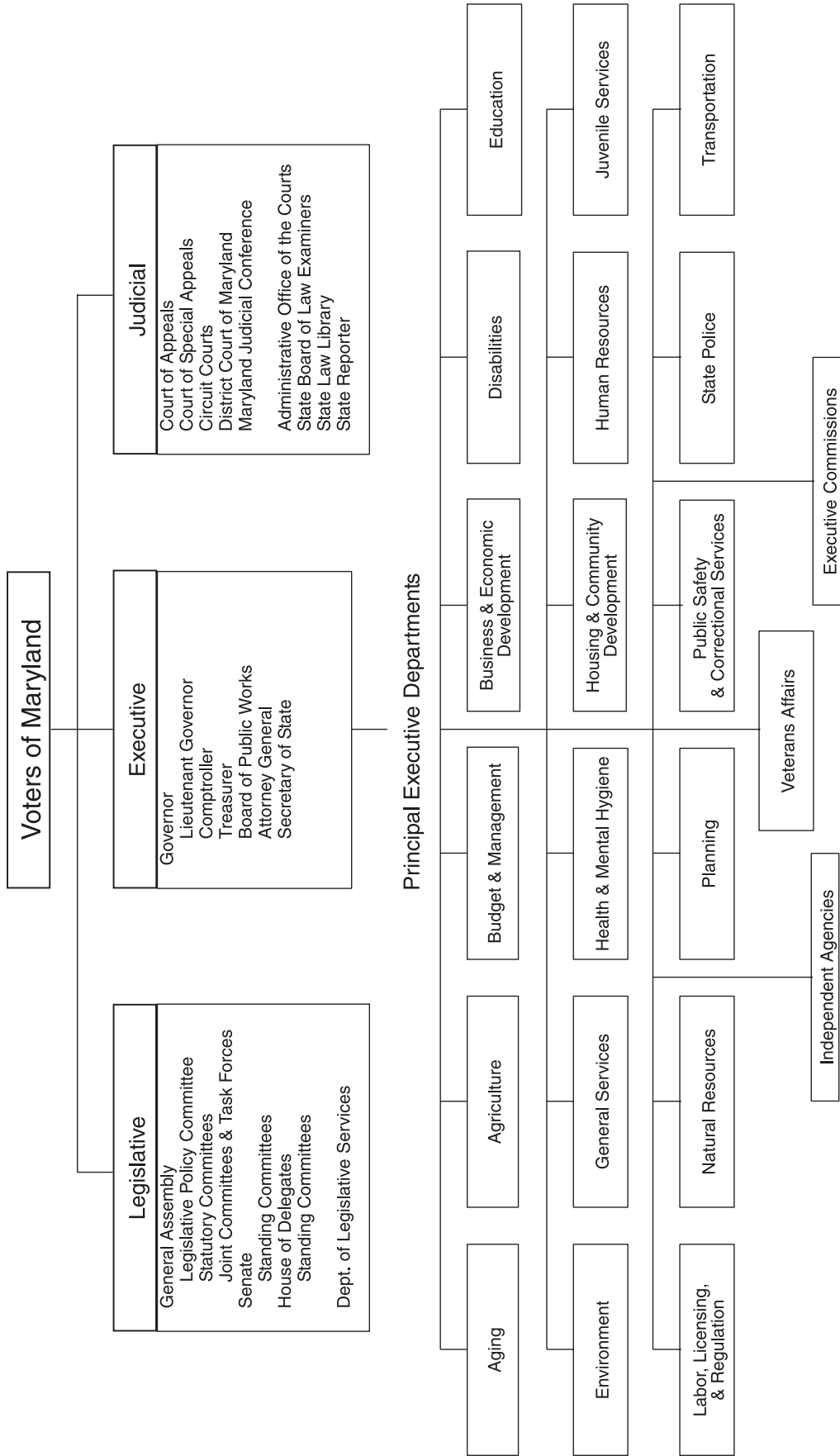
**Schedule of General, Special, Federal, Current Unrestricted
and Current Restricted Fund Appropriations - Budgetary Basis
For the Year Ending June 30, 2006
(Expressed in Thousands)**

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State	\$ 132,036					\$ 132,036
Public debt		\$ 623,106 (1)				623,106
Legislative	63,957					63,957
Judicial review and legal	383,621	75,384	\$ 4,408			463,413
Executive and administrative control	142,559	147,207	107,439			397,205
Financial and revenue administration	161,207	71,988				233,195
Budget and management	114,451	15,217				129,668
Retirement and pension		21,401				21,401
General services	49,862	1,334	787			51,983
Transportation and highways		2,791,303	852,003			3,643,306
Natural resources and recreation	64,097	185,601	28,338			278,036
Agriculture	23,114	57,669	9,319			90,102
Health, hospitals and mental hygiene	3,288,664	265,303	2,778,501			6,332,468
Human resources	557,672	65,735	999,470			1,622,877
Labor, licensing and regulation	17,421	19,374	134,787			171,582
Public safety and correctional services	840,728	138,836	10,974			990,538
Public education	5,501,970	37,492	896,416	\$2,707,221	\$880,272	10,023,371
Housing and community development	30,817	55,066	240,115			325,998
Business and economic development	59,774	39,065	593			99,432
Environment	33,677	93,932	69,301			196,910
Juvenile justice	175,451	253	16,897			192,601
State police	223,805	60,049	448			284,302
State reserve fund	325,685					325,685
Total appropriations	\$12,190,568	\$4,765,315	\$6,149,796	\$2,707,221	\$880,272	\$26,693,172 (2)

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported as of July 1, 2005, and do not reflect revisions, if any, subsequent to that date.

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